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PROGRAMS AND ACTIVITIES OF THE ECONOMIC DEVELOPMENT ADMINISTRATION

(98-43)

HEARING

BEFORE THE

SUBCOMMITTEE ON INVESTIGATIONS
AND OVERSIGHT

OF THE

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

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PROGRAMS AND ACTIVITIES OF THE ECONOMIC DEVELOPMENT ADMINISTRATION

WEDNESDAY NOVEMBER 30, 1983

House of Representatives,
Subcommittee on Investigations and Oversight,
Committee on Public Works and Transportation,
Washington, D.C.

The subcommittee met, pursuant to call, at 11:03 a.m., in room 2167, Rayburn House Office Building, Hon. Elliott H. Levitas (chairman of the subcommittee) presiding.

Mr. Levitas. The subcommittee will please come to order.

First of all, let me say that the primary function, or certainly one of the primary functions of oversight is to ascertain whether an agency, or a program, or an individual in a position of responsibility is properly performing the task to which that agency or program or individual is assigned as determined by the law of the land passed by the Congress.

This morning we begin an oversight hearing on the administration of programs by the Economic Development Administration of the Department of Commerce.

EDA remains an agency within the Department of Commerce charged with broad economic development responsibilities, despite an effort that goes back to the earliest days of this administration which has had as its purpose the elimination of EDA. The leadership of EDA, the work force, the individuals, and organizations impacted by its activities, have to a certain extent been caught in the middle of this protracted dispute between the Congress and the administration. A series of continuing resolutions have provided year-to-year funding, but they have not provided a very reliable outline of the future or the charter of EDA.

It would be presumptuous to believe that an oversight hearing such as this one could resolve this deep-seated philosophical difference. But I do believe it can provide some insights about how to improve a very unsatisfactory state of affairs.

And there remains a substantial question of stewardship. Taxpayers' funds continue to be expended, with a total of $325 million made available to EDA in fiscal 1983 for program and administrative expenses.

There is a stewardship of the agency work force as well, people whose careers are intertwined with the mission of the agency. They believe in it and what it has stood for, despite the controversy that has now developed. It is not too much to expect fair treatment for these dedicated professionals.

I would not minimize the difficulties that face an agency in this climate of uncertainty. Under the circumstances, special compassion and sensitivity and management skill are required to maintain productivity and morale. I believe that, also, is a reasonable expectation.

We had planned to begin these hearings yesterday and to hear from the Commerce Department's Assistant Secretary for Economic Development, Mr. Carlos Campbell, and some of his associates. The administration requested last week and during this past weekend that Mr. Campbell's appearance be postponed. In light of discussions I have had with high officials in the Commerce Department, and because of information I received from them about imminent developments in the agency, and since it is our intention to focus on issues rather than personalities, to the extent those two can be separated, we have agreed to that request. The administration will not be testifying in this set of hearings this week. Furthermore, during today's hearing we will avoid, to the extent possible, getting into matters relating to the Assistant Secretary in any personal way or relating to any specific allegations concerning him, or which may affect him.

I do not want the postponement alone to cause any misunderstanding. This subcommittee intends to develop a full and complete record on this matter, and to make recommendations as to how the Economic Development Administration can be put on the right track. We will be hearing from the administration witnesses, very likely including Mr. Campbell, at what this subcommittee considers to be the proper time. There will be no gaps or relaxation in our investigative effort.

Outside of the adjustment in our schedule that I have just mentioned, we shall proceed as planned. We shall begin by hearing a status report from two members of the subcommittee staff, representing both the majority and the minority, who were asked last summer to investigate some of the troubling reports that we were receiving about EDA. After that we shall hear from two grassroots development agencies, and, finally, from two researchers who have studied the human and institutional problems that arise when agencies are in a retrenchment mode.

We have also invited to participate in these hearings and to serve as part of this panel members of the Subcommittee on Economic Development of the Committee on Public Works and Transportation, and in attendance today I notice the chairman of that subcommittee and the ranking minority member, Mr. Oberstar and Mr. Clinger. We welcome them and look forward to their participation.

Before we proceed, I would like to inquire whether my colleague, the ranking member, has an opening statement.

Mr. MOLINARI. I do, Mr. Chairman. I too wish to extend a cordial welcome to the witnesses who are appearing today. Their testimony, supplementing the presentation and other information supplied by the subcommittee staff, should enable the subcommittee to get a clearer picture of how EDA's program administration over the last couple of years has affected those most directly affected by the Agency's actions—the potential grant and loan recipients and EDA employees, themselves.

I want to echo the chairman's observation that the subcommittee's inquiry is not to be construed in any way as a mere exercise in pointing an accusatory finger at the individual or individuals who have most recently been in charge of the agency. That is not at all our purpose in conducting these hearings. The key questions which need to be answered and which may not be answered entirely today, because we have no administration witnesses, are: How effectively is the EDA delivering its program services? Are EDA programs being administered in a way consistent with the directions and wishes of the Congress? How have changes in the management structure affected the agency and those it was created to benefit?

Some of the problems with the Agency which the subcommittee will be looking into today and in future hearings are not particularly new; others, particularly those created by changes in management structure, are. Regardless, all the problems seem to have become somewhat exacerbated because the administration has targeted EDA for elimination and the Congress has not clearly articulated the agency's future direction through the normal legislative process.

There is no question that the administration's view is at odds with the mood of the House, particularly that of the Committee on Public Works and Transportation. Early in the 98th Congress, the committee unanimously reported out H.R. 10, a bill which would not only extend the life of the EDA, but redirect and refocus many of the agency's programs. That measure has passed the House, but there is little indication of the Senate's willingness to likewise act. Given the administration's opposition to this measure, introduced and cosponsored by the gentleman from Minnesota, Mr. Oberstar, and Pennsylvania, Mr. Clinger, it is not difficult to understand and appreciate why this subcommittee's bipartisan inquiry into EDA's recent program activities is focused as it is.

I only mention these facts, Mr. Chairman, in order to reinforce the manner in which you have so ably set the stage for today's hearing, and appreciate the opportunity to do so.

I would just like to add one postscript to that, Mr. Chairman. Some word was passed around late yesterday by members from the Commerce Department to inquiring press who had apparently gotten wind of what was happening here with respect to the witnesses that were scheduled to testify. There was a report that allegedly emanated from Commerce that the reason why Carlos Campbell was not appearing here today was because it was this subcommittee's desire not to question him at this time. We know that is not the truth, nothing could be further from the truth, and the only reason Mr. Campbell is not here today is because it was requested by the administration that he not appear. I think it is important that we set the record straight once and for all on that score.

Thank you, Mr. Chairman.

Mr. Levitas. Thank you. I appreciate your setting the record straight on that. I was not aware of that fact, but it is consistent with a statement made to me yesterday afternoon by a reporter, which I could not understand. That reporter seemed to have things upside down, but now I understand what the source of that confusion was, and I appreciate your straightening out the record on that.

The gentleman from Minnesota.

Mr. **Oberstar**. Thank you very much, Mr. Chairman. I strongly commend you and Mr. Molinari and the entire Subcommittee on Investigations and Oversight for holding these oversight hearings into the operation of programs under the Economic Development Administration throughout fiscal year 1983. I want to commend you especially for the thorough, detailed, very responsible manner in which the preparation of these hearings has been conducted. You have been thoroughly professional and very discreet in the investigative work that has gone into the preparation for these hearings; the staff have conducted themselves in an equally high-minded fashion and developed a solid factual record that stands on its own and is unimpeachable. Today's witnesses will give us valuable insight into the agency's administration of the programs under its jurisdiction and will help us provide whatever guidance may be necessary for this agency in the future as we learn from the lessons to be developed in the course of the hearing.

The Subcommittee on Economic Development, which I chair and of which our colleague, Mr. Clinger, is the ranking member, has jurisdiction over the Public Works and Economic Development Act and EDA as its administering agency. We have been concerned over the current administration's management of these programs. We have closely followed the Agency's activities over the past 3 years, holding a number of hearings, most recently detailed hearings on the implementation of directives Congress has set forth for the administration of EDA programs.

The administration certainly has made no secret of its desire and of its policy to terminate EDA. The administration has requested minimal or close-out funding for the agency in each of the last 3 fiscal years, and when Congress has appropriated funds, the administration has attempted to rescind or defer the expenditure of those appropriated moneys. They have cut the agency's personnel roughly in half in the course of the past 3 years, and perhaps below half if we were to make a current count.

Congress, in responding to the policy of the administration and the management of the agency, has continued to fund EDA, though clearly at a lower level than previously. Congress has also been very explicit in those appropriations, providing clear directives for the executive branch on certain aspects of the administration of EDA programs. But those directives have been sidetracked or apparently ignored in the operation of the program, and our subcommittee has been very rightly concerned about it, and we called to the attention of your subcommittee some of our concerns that I believe triggered the current investigation.

We also responded in a different fashion on a legislative basis. Twice my subcommittee and the full Committee on Public Works and Transportation have reported out, once in 1982 and again this year, a National Development Investment Act, this year known as H.R. 10. The House twice passed that legislation, this year by an overwhelming vote of 306 to 113, a clear indication of the will of the Congress to provide economic development programs in distressed areas. This legislation would restructure the Nation's principal economic delivery programs to meet the needs of the eighties and to meet the objections of the administration to the current operation of EDA. But as Mr. Molinari has pointed out, that legislation incredibly has been stalled in the other body and stalled by lack of clear direction from the administration about the future of EDA. Congress also last spring appropriated an additional $100 million for EDA under the Emergency Jobs Act of 1983.

The major concern of our subcommittee over the past 3 years has been whether the agency is carrying out the intent of Congress with respect to the EDA program and, more recently, with respect to the jobs program, or whether it has attempted to pursue its own agenda to dismantle the agency and demoralize its staff, despite the clear direction of Congress that EDA should be continued. We held oversight hearings into the operations of EDA on November 5, 1981, and on December 14 and 16, 1982, and then followed those hearings up with a letter both from Mr. Clinger and myself to Chairman Howard and to you, Mr. Chairman, asking this subcommittee to conduct a complete indepth investigation of EDA, which brings us to this hearing today. I would like to place those letters in the record at this time, and also take this opportunity to commend you and to express our deep appreciation for the thorough, competent manner in which you have brought us to this point today.

[Letters referred to follow:]

House of Representatives,
Subcommittee on Economic Development,
Washington, D.C., May 18, 1983.

Hon. James J. Howard,
Chairman, House Committee on Public Works and Transportation, U.S. House of Representatives, Washington, D.C.

Dear Mr. Chairman: Members of our Subcommittee on Economic Development, Members of the Appropriations Committee, and Members of Congress generally are becoming more and more concerned and even outraged at the way the current Administration is handling the programs under the Economic Development Administration.

Members hear rumors from their Districts, and bring these rumors and concerns to us, as you can see from Frank McCloskey's letter, which I have enclosed as an example of the broad-based anger at the way EDA is handling funds under the Emergency Jobs Act. Grave allegations have been raised against the agency, as in the Ahrens case, which I will be glad to discuss with you; yet we get no response from the agency either in clarification or in their own defense. The hearings we have held so far on EDA have been inconclusive, and our attempts to work the agency have been unfruitful.

There is a general belief that the agency is obstructing rapid implementation of the Emergency Jobs Act, by establishing unnecessary procedures, bypassing the Regional and Field Offices, contracting work out to the Corps of Engineers, and setting intolerable requirements for applicants.

There are also concerns over the general mismanagement and foot-dragging on the entire range of EDA's regular programs, a pattern that goes back to this Administration's earliest days. The decision to sell off a portion of the loan portfolio, without informing Members of this Committee, is a prime example of the way the EDA leadership has tried to dismantle the agency against the explicit will of Congress.

I think the only way to determine what is really going on in the agency, and to respond to the legitimate questions of our own Committee Members and to other Members of Congress, is to conduct an in-depth investigation, by the Subcommittee on Investigations and Oversight, who have the investigative skills necessary to overcome the present impasse, and determine whether the charges of obstructionism and mismanagement are in fact valid.

Accordingly, Bill Clinger and I have asked Mr. Levitas to conduct such an investigation and, if he so desires, to join us in hearings which our Subcommittee intends to hold as a follow-up to last December's hearings.

We will be more than happy to meet with you to discuss any questions you may have regarding the investigation, the hearings, or EDA's implementation of its programs.

With warm best wishes.

Sincerely,

JAMES L. OBERSTAR, *Chairman.*

Enclosure.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, D.C., May 18, 1983.

Hon. ELLIOTT H. LEVITAS,
Chairman, Subcommittee on Investigations and Oversight, House Public Works and Transportation Committee, Washington, D.C.

DEAR MR. CHAIRMAN: We appreciate your mailing Chuck Krouse available several weeks ago for a brief and preliminary investigation of implementation, by the Economic Development Administration, of the Emergency Jobs Act. His report was extremely helpful and timely.

We now ask that you make your staff available for a more complete, in-depth, investigation of that Agency's implementation of the full range of EDA programs, a subject of concern shared by Members of our Subcommittee on both sides of the aisle. The investigation should include, but should not be limited to:

Further investigation of the Agency's implementation of the Emergency Jobs Act; enclosed is a letter from Rep. Frank McCloskey outlining his concerns, which reflect those generally held by many of us;

The alteration of current application processing that excludes professional staff in Regional Offices and the Washington Operations Office from review of public works grant applications.

The Agency's compliance with language in the Fiscal Year 1983 Continuing Resolution prohibiting the further sale of loans without the borrower's consent;

The decision by the Assistant Secretary for Economic Development to administer all Technical Assistance monies out of Headquarters;

EDA's handling of the loan guarantee to Ahrens Aircraft Inc. Our Subcommittee sent Mr. Campbell a letter inquiring into this case last July; we have yet to receive a response to that letter; nor have we received the Inspector General's report on this case, despite numerous requests for it, and numerous promises by the Inspector General to provide it.

The issue of executive training, as brought out by the Appropriations Subcommittee of Commerce, Justice, State and Judiciary.

Our staff will be glad to work with yours on a bipartisan basis to elaborate on these and other areas, and to provide all the assistance necessary. Our Subcommittee has long been concerned about this Administration's handling of EDA's programs, and its adherence to the intent of Congress.

Our Subcommittee has a commitment to hold further hearings on a number of issues involving EDA. We will be happy to discuss the scheduling of joint hearings with your Subcommittee at any time convenient to all of us.

In advance, we are very grateful for your cooperation in this matter.

JAMES L. OBERSTAR,
Chairman, Subcommittee on Economic Development.

WILLIAM F. CLINGER,
Ranking Minority Member, Subcommittee on Economic Development.

Mr. LEVITAS. Thank you very much, Mr. Oberstar. I know I speak for Mr. Molinari and the entire subcommittee and the staff. We appreciate those remarks. During the 26 years or so of existence of this subcommittee, with which you are familiar, being an old hand here, I think this subcommittee has maintained a tradition of bipartisan activity. Regardless of what administration or of what party that administration may be, there has been this cooperative bipartisanship on this subcommittee, as perhaps has been true on the full committee, but certainly on this subcommittee, in which we let the facts drive our conclusions rather than try to make the facts meet our conclusions. And when we received the request from you and Mr. Clinger, we gave directions to the staff and you will hear shortly the preliminary conclusions they have come to. I for one know of the hard work that you and your subcommittee and Mr. Clinger have been doing in order to make EDA a constructive and workable program, an agency to carry out a constructive and workable program, and we were pleased to have the opportunity to work with you.

I recognize at this time the gentleman from Pennsylvania, who not only is the ranking member of the EDA subcommittee, but has a very special expertise and knowledge about that agency from independent sources in his former life.

Mr. CLINGER. Thank you very much, Mr. Chairman. I just want to very briefly join with my chairman, Mr. Oberstar, to commend you and Mr. Molinari for holding these hearings today, these oversight hearings on EDA. I think you responded very rapidly to our request to look into this, and I have had occasion to observe the work of the staff in preparing for these hearings, and can only commend the staff and you for the professionalism and the very excellent work that has been done preparing for the hearings.

I would like to echo the gentleman from Minnesota's comments that we applaud your efforts and welcome your efforts in achieving the goal that I think we are all dedicated to, and that is how can we make EDA an effective tool for creating jobs in the private sector throughout this country. I am convinced that it can be that kind of tool, has been in the past, and can be again. I am sure that these hearings are going to get us going in the right direction and provide the kind of advice as to how these programs can be restructured.

I think that Mr. Oberstar and I particularly welcome what is coming out of these hearings because I know that Chairman Oberstar does intend to hold hearings looking to program efficiencies and inefficiencies—looking to how the program can be administered in the coming year. The material that will be generated here today, I think, will be very helpful to us as we hold hearings on the program administration next year. Also as a former member of this subcommittee, Mr. Chairman, I commend you for your very excellent work, and I look forward to receiving the findings and recommendations of the subcommittee subsequent to this hearing. Thank you.

Mr. LEVITAS. Thank you, Mr. Clinger.

Now we will hear from Mr. Krouse and Mr. Goebel, the principal professional staff members who worked on the investigation. I will make the statement at the outset for those who are not familiar with the proceedings of this investigative subcommittee that with the exception of staff members and GAO witnesses, all testimony taken before the subcommittee is received under oath. The witnesses who will be following the professional staff of the subcommittee need not think they are being singled out for special attention today.

With that, Mr. Krouse, Mr. Goebel, you are recognized for purposes of presenting your introductory statement.

STATEMENT OF CHARLES A. KROUSE, PROFESSIONAL STAFF MEMBER, AND P. CHRISTOPHER GOEBEL, ASSISTANT MINORITY COUNSEL, SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT, COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

Mr. KROUSE. Thank you, Mr. Chairman. For the past several months we have pursued the investigation to which there has just been reference, interviewing a large number of past and present EDA employees, as well as individuals impacted by the EDA program. This program historically has been responsible for making public works and economic planning grants, direct loans and loan guarantees, technical assistance and research outlays. We must report to you today that EDA is a troubled agency. Morale is poor, there is uncertainty as to the agency's goals and objectives, and considerable concern is expressed about the agency's future.

EDA has, of course, been caught in the middle of a policy dispute between the administration and the Congress. Funded by a series of continuing resolutions, the last authorizing act expired in September 1982. The administration's position remains one of dismantling the agency and its program.

EDA's fortunes have changed with the passing years. In the 1970's, the agency had a regular program that reached a peak annual level of a little more than $500 million, with another $4 billion in local public works funds administered by the agency in 1977 alone. The personnel force was near 1,000 persons at one time.

Today, the picture is substantially different. The 1984 appropriation that went to the President earlier this month contains $270 million in program and administrative expenses. The 1983 budget was $225 million for program and administrative expenses, plus another $100 million that was added last spring under Public Law 98-8, or the emergency jobs bill.

By the summer of 1981, EDA's personnel level had dropped to around 740 persons. A major RIF [reduction in force] that got underway in September 1981 eliminated 212 jobs, dropping the personnel level to around 528. Today, EDA has 484 employees, including about 40 temporaries, and it is our understanding that these temporary slots are scheduled for elimination by April of next year.

In addition to the uncertainty that has existed about EDA and its future, the agency's problems have been exacerbated by the management style and some of the management decisions of the Assistant Secretary of Commerce for Economic Development.

Chairman Levitas has asked that, at this time, we not pursue matters which relate to the personality of the Assistant Secretary of allegations of sex discrimination that have been raised by some of EDA's female employees. Accordingly, we will confine our observations to his management role as we have observed it, the kinds of decisions that have been made, to the policy changes that have been reflected in those decisions, and what has happened among the EDA professional staff as a consequence. We will try, as best we can, to stay within this outline.

The Assistant Secretary has transferred a large amount of authority from the six regional offices to Washington, and within headquarters to himself personally. This has been particularly apparent in the handling of business loan applications and in administration of the jobs bill, where in both cases the field apparatus largely has been excluded from the evaluation process. He has not had confidence in many of the members of his professional staff and has publicly said so.

It is noteworthy that the management consultant firm of Price Waterhouse, which helped EDA develop the original plan for handling jobs bill applications, has recently recommended that responsibility and accountability for the public works project selection process be shifted back to the regional offices.

One significant sidelight that I believe is worth mentioning is that we have heard the estimate that field people help applicants prepare project applications in about 30 percent of all cases. This is particularly true in the smaller communities that do not have technical expertise or the legal staff to help in what is a rather complicated process.

It is important to realize that many of the management decisions within EDA apparently have been part of a larger administration policy framework. For example, on August 30, 1983, a White House memorandum, signed by the President and directed to the heads of all executive departments and agencies, dealt with the subject of Federal field structure reform. In one part the memo stated the objective of—and I quote—"elimination of regional, area and local offices where primary contact is directly between State and local governments and the headquarters of your department or agency."

In other words, that memorandum stated something that already had been in effect in the Department of Commerce for several months.

We have frequently heard the allegation that the EDA management is determined to show that the EDA program is one of those programs that can, in fact, be administered from Washington if it must be administered at all.

Controversial actions involving technical assistance and research grants have also been attributable at least in part to policy guidance originating outside EDA itself.

Support for the President's Caribbean Basin Initiatives and the promotion of international trade have claimed major portions of the technical assistance budget.

Virtually all of EDA's 1983 research budget was given to other agencies of Government or outside organizations working with other agencies of Government. No regional or local projects were funded. We know that the Office of Management and Budget and the Inspector General have urged EDA to generate revenues from the sale of loans for the purpose of helping to reduce the Federal budget deficit.

Utilizing his management discretion, the Assistant Secretary had distributed much of the so-called soft EDA money—research and technical assistance—without considering competitive proposals. This is not illegal, but it does raise questions about the quality and purposes of some of the work.

EDA today has a full or nearly full component of economic development representatives—so-called EDR's—largely because of congressional action that prohibited the agency from dropping the number of EDR's below 47. At last report, in fact, EDA had 46.

These are the people who work at the local level with individuals and organizations that seek to participate in the EDA program.

EDA has experienced a substantial personnel turnover in some top management positions. Last summer, for example, new appointees were named to the positions of Deputy Assistant Secretary for Economic Development, that is the No. 2 person in the organization, and Deputy Assistant Secretary for Finance, who would be the No. 3 or 4 person in the hierarchy. As of last week, both of these gentlemen were gone. Earlier appointees to the same two key positions left EDA just as abruptly in April of this year.

When a task force was appointed in April to process jobs bill applications in Washington, both the Director of the Office of Operations and the Director of the Office of Public Works were left off that task force, although the former official was belatedly called in to participate. These are the people who one would expect to be in the middle of this processing/selection operation.

The Inspector General of the Commerce Department has spent a large amount of time analyzing the work of the Economic Development Administration and issued several audits and reports. This activity has added to the problems of the agency. For example, while some Members of Congress and others are critical of the absence of business loan activity, the IG has maintained EDA has not serviced past loans properly, has a default rate that he, the IG, considers unacceptable, and therefore could not really manage a larger program in a satisfactory manner.

In fact, an October 1983 draft IG audit report, which drew a stinging retort from EDA officials themselves, actually claimed that $500 million, or about one-half of EDA's loan portfolio, was in default or delinquency.

We have tried to be objective in our comments. But there is no way that we can report to you that EDA is a happy organization moving with confidence toward clearly perceived goals. It is an organization beset with low morale and self-doubt. More than one high-level career person has expressed to us their desire to get out. As we mentioned earlier, several top people already have left. In fact, statistics provided by the agency show 19 persons in the grade of GS-14 or above have been separated, retired, or transferred from EDA since June 30, 1982, and there have been 22 temporary transfers within the agency during the same period of time, GS-14's and above, with some of them having as many as three different jobs. There are currently, just to put this in perspective, 104 people at the grade of GS-14 and above. Others in the agency feel they are being squeezed out or that their work is unappreciated. One device used is to lower performance ratings. The unwanted transfer is something else that has been reported to us.

More problems undoubtedly lie ahead. One high-level career executive estimates that 25 percent of the 211 jobs bill grants that were made will not go to construction or go to construction only with great difficulty because of the many conditions and qualifications that were written into grants as the Agency frantically sought to meet its September 30 deadline.

To summarize, Mr. Chairman:

We have investigated the types of management decisions that have been made in the Agency and concluded that they have contributed to the demoralization of that organization. Whether project quality has suffered, under the jobs bill, for example, is something that will have to be investigated further.

We have investigated the reasons why the Assistant Secretary has made some of the decisions that he has, and conclude that he has zealously sought to carry out what he perceived to be instructions from above. In his zeal he has been insensitive and heavy-handed with subordinates and apparently unwilling to see any other side of an issue than what he thought his administration superiors wanted him to see.

In this respect I would like to digress for just a moment from the prepared testimony. A memo to the Assistant Secretary from Mr. John Corrigan, Deputy Assistant Secretary for Operations, dated October 19, 1982, and written in preparation for an agencywide meeting of top staff persons, said, and I quote: "There is a unanimous opinion among all program people in headquarters and in the field that the civil rights and environmental functions belong in the field."

These are important requirements that have to be met in processing any grant, and there was a unanimous opinion to return these environmental and civil rights functions to the field. But to this day they remain in headquarters, contrary to the collective wisdom of the Agency.

This sort of thing, I think, does extract a toll from the morale of subordinates. We have looked into that issue and we certainly have concluded that it could hardly be lower. Management style and uncertainty about the future are the two primary factors.

In this regard, it is perhaps appropriate to conclude with a comment from a former high EDA official that I believe accurately reflects the situation.

He said, and I quote, "If there is no place for EDA today, it should be executed rather than slowly bled to death."

We will be happy to answer any of your questions.

Mr. LEVITAS. Thank you, Mr. Krouse and Mr. Goebel, and I would like to echo the comments of other members of this panel and tell you I think that you have done a very excellent job, a very professional job, and I know we can continue to count on that in the days ahead as this investigation goes forward to its next stages.

I have just a few questions. In the statement you say that EDA has given its research budget to outside agencies. What do you mean by that?

Mr. KROUSE. The 1983 research budget has gone entirely to, as I said, other organizations and agencies. Maybe if I just quickly run down who some of the recipients were and some of the purposes, you will get an idea of how this budget has been used: $500,000 was transferred to the National Bureau of Standards for work on high-temperature ceramics and biotechnology; $30,000 was transferred to the National Science Foundation for financing a study of the Japanese ceramics industry; $250,000 went to the National Academy of Sciences and Engineering for transfer to another outside board for six studies of manufacturing; $249,000 went to the American Enterprise Institute for studies on advanced technology innovation and economic adjustment; and $970,000 went to the Industrial Research Institute, which I understand is made up of emeritus

R&D executives from industry who study industrial competition and technology.

I might add to that on November 23, 1982, EDA published in the Federal Register an invitation for outside researchers to submit proposals to EDA on how to spend the 1983 budget that I have just described. They received more than 96 proposals, and to this date they have funded none of them.

Mr. LEVITAS. I want to ask you a question about a Mr. C. Dale Randall, who I understand was at one time serving as Acting Deputy Assistant Secretary for Finance but who is no longer there.

Do you know anything about the circumstances under which he left that position at the agency?

Mr. KROUSE. The circumstances were rather peculiar, I would say. I don't know all the details, but Mr. Randall came from the Salt Lake City office of the Small Business Administration on detail to EDA last summer. He was introduced by the Assistant Secretary as a former banker and somebody in whom he could place a lot of confidence. This was about August or September that he made that statement to us.

On Monday, November 14, while representing Mr. Campbell at a staff meeting in Atlanta, I understand Mr. Randall called Washington, said he was resigning on Wednesday, and did in fact leave. I don't know the extent to which his plans were known before he went to Atlanta, but his actions certainly surprised a lot of people in the Agency. I understand he is now running a small bank in Colorado.

Mr. LEVITAS. Would you make an effort to contact Mr. Randall and see if you can get any additional information on this?

Mr. KROUSE. We will do that.

Mr. LEVITAS. According to information I have received, Mr. Campbell had made a number of public statements to the effect that he regards the public works project selection process as superficial and political. Would you, either of you, comment on that, please?

Mr. KROUSE. I will take a crack at it and then I would invite Mr. Goebel also to comment on that if he would like to.

Almost anyone you talk to in EDA will deny that there are political influences in the public works program. We do know that the regions traditionally have put together project review boards from their professional staffs and these are the people who have reviewed projects and examined the criteria. The Administrator in one regional office told us, and he is an experienced, long-time EDA employee, he told us he had never overruled his project review people. If they said reject a project he rejected it, and if they said fund the project he sought funding for it.

Of course, there are other ways that the political process can work and I would not sit here and say that there have not been any political influences in the EDA program. We know, for example, that the word came out of EDA Washington last summer to one regional office directing them to fund three major projects. Now, we have heard statements that the EDA program is a pork barrel program and things have not been done in an analytical and objective way in the past, but I am afraid there is evidence that it has not been done that way in the recent past as well.

Mr. LEVITAS. Mr. Goebel, would you care to comment?

Mr. GOEBEL. Just briefly, Mr. Chairman. One of Mr. Campbell's comments to us when we interviewed him was his perception, by and large, that mainly traditional EDA programs—particularly the public works type—create, in his terms, phony jobs. He has, with that attitude, been extremely skeptical about the viability of many of the project grant applications that have found their way to his desk. We did receive some information that in fact he used that very term in turning back an application to the regional office and to the grant applicant saying, "Furnish me more information; I simply cannot accept what I see on these particular pieces of paper supporting your claims of jobs being created."

We also understand eventually, in that particular project, that such information did become available to him and the project was approved, but the phony jobs aspect certainly seemed to be one of his overriding concerns.

Mr. LEVITAS. I just have two concluding questions. One relates to a term that you used in your statement to us that morale problems and other problems that you described at EDA were attributable to, and you used the term "management style."

Could you clarify what you mean by management style?

Mr. KROUSE. Well, management style I suspect is a rather subjective notion. I guess the way I would characterize it is if corrective surgery is needed in the bureaucracy that you do it with a scalpel instead of a broadax, and perhaps throw in a little bedside manner as well. There are ways to do even unpleasant things without alienating the people with whom you work, and I think that is what we are talking about in management style.

Mr. LEVITAS. And just for the record, in order that we might have it, would you describe to the subcommittee the scope of your investigation, how many people you spoke to and interviewed, where they were, some indication of what types of individuals, what positions or former positions they might have held, and over what period of time your staff investigating effort has continued?

Mr. KROUSE. Well, off and on since midsummer we have been working on the EDA situation. It has not taken all of our time. But we have interviewed approximately 35 present or past employees of the Economic Development Administration, both in the field and in headquarters. We have talked to people in four of the six regional offices and we actually visited two of the regional offices.

Mr. LEVITAS. Have you spoken—I think you have said this previously, but you have spoken with Mr. Campbell directly?

Mr. KROUSE. Yes, sir, we have.

Mr. LEVITAS. I think that covers the questions I wanted to get into at this time. At this point I would recognize the gentleman from New York.

Mr. MOLINARI. Thank you, Mr. Chairman.

I would like to pick up on the question of political favoritism, one of the reasons being that in today's Washington Post there was mention of the fact that Mr. Campbell had antagonized many Democrats by trying to stop EDA grants to their districts.

Were we able to find any evidence which would suggest that indeed that is what occurred anyplace?

Mr. GOEBEL. I would have to say, Mr. Molinari, that we do not have any concrete evidence that that in fact has taken place. Mr. Campbell, in his conversations with us and I think quite openly on the public record in other forums, has steadfastly maintained that politics did not enter into his decisionmaking process and, in fact, frankly admitted that he felt he had made a lot of enemies because it had not.

Mr. MOLINARI. In your research at some point in time you had made a request that EDA provide you with a list of the approved public works projects for the fiscal year 1983 and identify them by the project itself, the amounts, the members in whose congressional district the project was listed, and you received that copy; is that correct?

Mr. GOEBEL. We have that copy, Mr. Molinari. The request was initiated through the chairman and ranking minority member of the Economic Development Subcommittee, however.

Mr. MOLINARI. Have either of you gentlemen had an opportunity to review that list to determine whether there is any indication there of political favoritism?

Mr. GOEBEL. I have not reviewed it in any detail.

Mr. MOLINARI. Mr. Krouse.

Mr. KROUSE. I haven't either.

Mr. MOLINARI. The reason I raised that question is because seeing the article today in the paper I took a look at these projects and broke them down, and I came up with a somewhat surprising result, I think. Of the 189 projects listed, 111 happen to be in Democratic congressional districts, and about 78 in Republican districts, so that speaking for the minority, I would like you to go back and look again at the question of political favoritism.

Seriously, that would seem to indicate that perhaps Mr. Campbell in his statements to you was being honest and direct, and the numbers certainly don't seem to substantiate that they were favoring members of the administration's party.

Mr. CLINGER. Would the gentleman yield?

Mr. MOLINARI. Yes.

Mr. CLINGER. I would report to the gentleman that I, as ranking member of the Economic Development Subcommittee, have received many complaints from Republican members who felt that they were not getting adequate numbers of projects.

Mr. MOLINARI. I thank the gentleman. I had heard that kind of thing and I thought we should put a perspective on this, because it has been raised by the press.

Mr. LEVITAS. If the gentleman would yield. I saw that in the article that you referred to this morning and my reaction was one of surprise. I felt that based on the reports I had read from our staff that Mr. Campbell had made whatever enemies he had made without regard to their political party and that there was pretty much of a bipartisan concern about his handling of this agency.

I did not get the impression that the problem or the allegation existed, and I appreciate you bringing out the point. In fact, as I look at those numbers that you have called to our attention, it would appear that that is approximately the proportion of Members of Congress who are Democrats as compared to those who are Republicans.

Mr. **Krouse**. Could I add one thought?

Mr. **Molinari**. Surely.

Mr. **Krouse**. We interviewed people on the task force that was making the project selections under the jobs bill, and I think we both came away impressed with the effort that these people were making to try to be fair and objective in selecting projects. Everyone told the same story and they seemed to be working tremendously long hours.

In fact, I recall talking to one chap, I think he was an attorney, who had his arm in a sling. He said he had sorted so many of these 2,800 applications himself that he had developed tendonitis in his wrist. So I think there was a very intensive professional effort that went on down there, and I, for one, would give them credit for that.

Mr. **Molinari**. I appreciate that comment. I would like to spend a moment looking at that picture if we can. I have read the staff reports a couple of times and I get the indication that what essentially happened here was that the former input that would take place at the regional levels was taken away from them.

In fact, there are statements that in some cases they had very little work to do at the regional levels. Then after bringing it to Washington we got the impression that it was almost a one-man show. Mr. Campbell seemed to have almost total control. But that the number of projects being approved was very small as they approached the end of the fiscal year, so that during the month of September of 1983, it required a rather intensive effort in order to get the approvals through in time.

Could you give us your insight as to how they made that evaluation? I know that you just mentioned that you respect their professionalism. Obviously they were under the gun timewise and it seems to me that as the clock was running out that there must have been a flurry of activity, and I would have the natural concern as to whether they were able to make wise decisions with such a limited period of time left to them.

Would either of you care to comment on that?

Mr. **Goebel**. Mr. Molinari, I am not sure that I am really qualified to comment in any detail on the evaluation process that was undergone in reviewing the jobs bill project applications. It seemed that the people at the task force that we spoke with addressed the traditional types of things that EDA looks at even in the normal public works type of project applications—costs involved, benefits to a certain extent, the jobs predicted to be created.

It is conceivable, I suppose, that indeed the process was crunched up quite a bit from what the traditional review would be, where regional offices would be readily involved in the traditional EDA programs.

But beyond that, I really cannot say in too great a detail what was involved.

Mr. **Molinari**. Let me interrupt, if I might. There was a point in time earlier in the fiscal year when there was genuine concern expressed that Mr. Campbell and his staff were purposely not moving on the applications in an effort not to spend the money that was allocated by Congress.

He steadfastly denied that that was his intention. Obviously, the history will show that, in fact, it was expended.

Let me ask you this. At what point in time did he reach out and ask for Price Waterhouse to be brought in to oversee what was being done?

Mr. **Krouse**. Price Waterhouse first came on the scene when the decision was made to go forward with the concentration of the processing in headquarters. Price Waterhouse came in and, in fact, laid out a work plan, how to do it, schematic diagrams, wall charts, everything.

Now, to what extent Price Waterhouse may have been involved with the EDA management before that time, I really could not say.

They were pretty much responsible for the game plan that developed down there.

Mr. **Molinari**. Do we have any idea as to when they moved into the picture to lend their assistance in the selection process that was taking place?

Mr. **Krouse**. Well, from the beginning, from the time the task force was set up, Price Waterhouse was on the scene.

Mr. **Molinari**. And when was the task force set up?

Mr. **Krouse**. It was set up, I think it was first announced in April, and I think the members were appointed in about July.

Mr. **Goebel**. The information we have, Mr. Molinari, indicates on April 15 the Assistant Secretary decided that the jobs act applications would be processed at Washington headquarters and that a task force was nominally created on April 19.

This is all 1983. Appointments were made to the initial project review committee, which I hasten to add was only a part of the task force function, on the 16th of May 1983, and the composition of that committee was subsequenly revised, without, I think, it ever having met and functioned, on the 19th of June.

Mr. **Molinari**. Do we know how much Price Waterhouse was paid for their function here?

Mr. **Krouse**. We have asked for that information. We really have not received a satisfactory explanation. One of the reasons is Price Waterhouse has been doing a larger management job in the Department of Commerce, and this is a piece of that larger job.

Going back to the creation of the task force, Mr. Goebel is correct. It was created earlier than July. I think the director of operations, who was the most experienced person in processing grants, was brought into the task force in July.

Mr. **Molinari**. Getting back to Price Waterhouse and their function here, your testimony indicated that after the work was concluded they made a recommendation that in the future that EDA go back to the regional approach, seek guidance and assistance as they did in previous years on a regional level basis. Is that correct?

Mr. **Krouse**. That is correct. That is in the regular program, the regular public works program.

Mr. **Molinari**. Yes. Did they also see the regular program as well as the jobs program?

Mr. **Krouse**. No. In fact, there was a rather significant difference in that projects under the regular program were being processed in the regions and forwarded to Washington for approval. At the same time, the projects under the jobs bill were being entirely processed in Washington.

So you had a certain amount of confusion in the field as to where to take a project. And in fact, the regional people, the ones we talked to, were really upset by this course of events. Also by the fact that as projects were processed in the field under the regular program and sent to Washington for final approval, Washington would not even tell the regions that a project had been approved.

We talked to a couple of regional administrators, and they both used the same word in describing their reaction—"embarrassed."

It usually was up to a grantee to call the regional office and report that they had received a grant. The regional apparatus was so much outside of the final approval process under the regular program that they didn't know.

Mr. MOLINARI. Is there any indication that some of those who might have sought the normal channels by going to the regional offices—with the regional offices themselves not aware of what was going to happen—that perhaps some of those who might have qualified, might have had a workable plan, one that was fundable, lost out because they were concentrating their efforts at a regional level and might have been lost in the flow of things.

Any indication at all of that happening?

Mr. GOEBEL. As I recall our conversations with the regional people, Mr. Molinari—and correct me if I am wrong, Mr. Krouse—the regional people were under directions from Washington that if people came in requesting information on jobs bill grant applications, that the regional people were not to service those inquiries, but were to direct the potential applicant directly to the appropriate Washington people.

Mr. MOLINARI. So the chances are nobody was prejudiced to the extent that their application was not properly forwarded to headquarters here in Washington.

Mr. GOEBEL. Based on that type of a process, not prejudiced. However, I think it might be noteworthy for the record that the application process itself was somewhat different from what the traditional EDA program approach has been. That is, traditionally, the regional people and the economic development representatives, who worked among the States and communities, went through an extensive consultative process with potential project applicants.

In many cases, as I think Mr. Krouse alluded to in his direct statement, they worked hand in hand with the project applicant to prepare applications, to ease them over the rough spots, and very ably assisted in helping the potential recipient.

That type of consultation and opportunity was not made available to project grant applicants in the way in which the jobs bill program was handled.

Mr. MOLINARI. How many applications were there altogether that were filed under either of these programs?

Mr. GOEBEL. Approximately 2,900 under the jobs bill program, and I am not certain on the traditional program, for fiscal year 1983.

Mr. MOLINARI. There were about 220 approved?

Mr. GOEBEL. 211.

Mr. MOLINARI. I know it is a difficult question. I want to ask you this. Is there any way that you could make a determination in your review as to whether the proper criteria were being used? Looking at less than 10 percent who were successful in being funded—one would wonder as to how they established the test. Particularly when racing the clock, as they were.

I wonder whether you had any insight as to how the determination was made, what determination was made.

Mr. **Goebel**. As I recall, during one of our conversations with either a regional or headquarters person here in Washington, it was brought out that the criteria were published in the Federal Register.

I believe we have those criteria in our files. In response to much that same type of question raised by staff, the person said probably the best way you are going to be able to evaluate the worthiness of the jobs bill project grants is to merely measure them against the criteria as they were set forth in the Federal Register.

Long-term performance, of course, is something that will have to be measured over a period of years.

Mr. **Krouse**. I might add that the act itself required 75 percent of the funds to be targeted, and there were certain criteria in that targeting process. And EDA, as we understand it, did try to observe that targeting requirement. After it looked at all the criteria, it established benchmarks for each State. A benchmark is sort of an allocation for each State.

Now, we also understand there was a little subjectivity that came into the process. It was not completely an analytical-type decision. I am not sure we can explain that subjective factor very well. I know some questions have been raised about it. But I do think there was up front a rather intense effort to approve projects that were consistent with the intent of the act. For reasons that we really don't understand at this point, some adjustments were made.

Mr. **Molinari**. The base decision to transfer the authority from the regional offices to Washington—we had some indication that Mr. Campbell was doing this, maybe as a good soldier, or so he thought. But was there any indication that, other than this being Mr. Campbell's own determination, he might have been acting on instructions or authority from above?

Mr. **Krouse**. I am not sure I understand that question.

Mr. **Molinari**. Well, very simply, I am wondering whether Mr. Campbell's management decision to take away the input from the regional levels and bring it to Washington and then to make decisions without consulting the regions, was something that was done purely and simply by himself, or was it something that was suggested to him, recommended or instructed by somebody in higher authority?

Mr. **Krouse**. It may have been recommended early on. It certainly was consistent with the Presidential directives that emerged in midsummer. But I think that decision was very consistent early on with the kind of attitude that Mr. Campbell has had.

And that is he has not trusted people in his organization and in the regional offices. He has even said so publicly. Authority has been concentrated in Washington and to an increasing extent in him personally. So removing some of these functions from the regional apparatus was very consistent, I think, with his thinking.

And we know there has been a great amount of tension between Mr. Campbell and some of his regional administrators. They have expressed great frustration in trying to get certain messages across that they think are based upon institutional wisdom that has developed over the years, but which he out of hand rejected because—the way they state it is—he had a vision of how things should be done and he was going to do it that way—period.

Mr. GOEBEL. To add to that just a little bit, if I might.

Mr. MOLINARI. Before you make your statement—the reason I asked the question is because on the last page of your joint testimony there was a statement that he zealously sought to carry out what he perceived to be instructions from above. I am just wondering whether that was a perception on his part, or more than a perception—the fact that there were some orders from somebody.

Mr. GOEBEL. In the particular instance of the business loan guarantee program, Mr. Campbell has publicly acknowledged being sensitive to criticisms of the program both by the Commerce Department's Inspector General and by directives that had emanated, I believe, from the Office of Management and Budget regarding a tightening up within the administration of Federal collection procedures and foreclosures on loan delinquencies.

So to that extent, at least within this particular program, he was sensitive to policy direction from above, if you will, and criticisms and comments being directed at the programs from within the department, as well.

Mr. MOLINARI. I have some other questions. But I would like to defer to my colleagues.

I want to ask one last question before I pass this time around. Was there any indication that there was a deliberate attempt here by Mr. Campbell or anyone else to destroy the integrity of EDA because there was a feeling that EDA should be phased out and eliminated completely?

With all these charges and countercharges, I am wondering if at any point in your inquiry it looked like this was just simply part of an attempt to dismantle EDA?

Do you find any evidence of that?

Mr. KROUSE. Well, we find a lot of people who make that claim, that really what he has been attempting to do——

Mr. MOLINARI. Can you identify some of them, what positions they were in?

Mr. KROUSE. Some of them were in pretty high positions. I would prefer not to give you names. But there are a number of people who claim he has been out to subvert the agency, ostensibly to carry out the laws that he is required to carry out, but at the same time to do it in a manner that would cause programs to fail.

I would not go that far myself. As I say, these are the claims of others. At times I think there was a rather hardnosed and demanding requirement that was imposed on subordinates.

I think he would have liked to have shown a successful program in the sense that he was so much out of step with his regional people, if he could demonstrate, look, if you do it this way it is going to work, you see?

Mr. MOLINARI. All right. Do you have anything to add to that?

Mr. GOEBEL. No. I would agree with that.

Mr. MOLINARI. Mr. Chairman, I pass for now.

Mr. LEVITAS. Thank you, Mr. Molinari.

I might say that this particular technique, whether it exists in this case or not, I guess we will have to make our own judgment, but it is not uncommon for an administration which is not able to get Congress to go along and abolish an agency or a program, to approach it in this fashion.

I recall, and I don't remember the particular agency, but we had a rather extensive debate on the floor in an appropriations bill earlier this year where there was earmarked funding for a certain number of positions within the table of organization, in a department, and the reason being that the department had made two efforts—I think it was Legal Services Corporation, as a matter of fact, now that I think of it.

There has been efforts made to abolish the program or abolish the agency. Congress had turned it down. So they were going about it by reducing personnel within certain functions and the response by Congress was to mandate certain personnel levels.

We had rather an extended debate on that. But I think the point is, as you have brought out through the questions—Mr. Krouse and Mr. Goebel are somewhat tentative on reaching that judgment on their own—but they report it is a belief widely held by some highly placed officials in the agency; is that correct?

Mr. KROUSE. That is correct, Mr. Chairman. I might add that two witnesses who will be appearing later today will address the same question that Mr. Molinari has raised.

Mr. LEVITAS. Thank you.

Mr. Oberstar.

Mr. OBERSTAR. Thank you very much, Mr. Chairman.

My compliments to both Mr. Krouse and Mr. Goebel for the splendid, professional and objective testimony presented this morning.

There was a question raised by Mr. Molinari to which you responded there were some who felt within the agency that the Administrator was out to subvert the agency and that you did not necessarily concur in that judgment, but the effect was the same.

Subvert is a very strong word, and something else might be used to dismantle the agency. Clearly there was no dissembling on the part of the administration, or on the part of Mr. Campbell. In all public pronouncements and private meetings that he had before our Subcommittee on Economic Development, and in private meetings that Mr. Clinger and I had with Mr. Campbell, he has made it very clear his mission was to terminate the agency because that was the policy of the administration.

But he has also told us that he will carry out the law, whatever that law is, and he will administer the law that the Congress enacts and is signed by the President.

Along the way, clearly the low employee morale to which you have referred in your testimony, the tension that exists or has existed at least up until this point within the agency, both in headquarters and in the regional offices and among EDR's is the result of the management style brought to the program by the Administrator. Is that correct?

Mr. KROUSE. Well, it certainly occurred as a result of the management style, yes.

Mr. **Oberstar**. It is a fact, something we have to deal with. The question is, is that something we will want to pursue with later witnesses? Is the tension, the low employee morale a consequence of any kind of policy decision to close out an agency, or are those phenomena unique to the conditions in EDA?

Mr. **Goebel**. I will give you a very preliminary response, Mr. Oberstar. I think, yes, those types of things are endemic to any Federal agency or any Government agency that is facing a closeout situation. I think it could be strongly argued in the particular case of EDA that the management style of the Assistant Secretary has perhaps aggravated the difficulties there. I am certain that the following witnesses, who have studied these types of situations extensively, could probably give you a much more lucid response overall.

Mr. **Oberstar**. May I compliment you on your restraint. It is a very objective and professional statement.

Did the staff analyze the emergency jobs projects according to the unemployment rate of the area to which those projects were—the area in which those projects were approved? How do the results of the 211 projects approved relate to the targeting mandated in the Emergency Jobs Act of 1983? Seventy-five percent of the projects had to go into the highest unemployment areas. Did the staff review those aspects of the jobs program?

Mr. **Krouse**. We really have not had a chance to get into that aspect of it in any detail.

We do know some questions have been raised. There are allegations that certain areas qualified for projects because of very high unemployment rates, but because the quality of the projects was judged not up to the standards that they had set, that money was shifted from those geographic areas to some other areas.

I say these are allegations. We have certainly not had a chance to go in and look at it carefully.

Mr. **Oberstar**. Quality of projects is certainly a subjective factor. And that is something that troubles me about the administration of the emergency jobs program. Mr. Clinger and I both wish to pursue that aspect further in the hearings that the Subcommittee on Economic Development will hold at a later time.

It appears that the Emergency Jobs Act is administered in a much different manner, according to very different criteria from those according to which the local Public Works Act was administered. Partly that is due to the fact that the $100 million was to be administered under the regular title I and the public works impact provisions of the basic EDA program and not according to the criteria of the LPW.

So perhaps there were considerations available to the Administrator that would give him the greater latitude for subjective judgment on those projects than was the case under the LPW program of the previous administration. You did not specifically look into those aspects

Mr. **Krouse**. No; I say we have heard concern expressed that money was shifted because projects were not considered to be worthwhile. But exactly what constituted a worthwhile project, and applying that standard across the full range of projects, is something we just have not been able to undertake.

Mr. **Oberstar.** Well, these questions are always troubling, pork barrel, all of its odious connotations, political influence on decisions. I think it is fair to say that based on years of experience with the Assistant Secretary that he did not make a clear distinction between raw political power, whatever that may be, and a responsibility or the role of a Member of Congress to be an advocate for the people that he represents in distressed communities in seeking their fair share of a Government program whose purpose is to alleviate that distress and create jobs.

One can be an advocate of a project application in a community on its merits without at least making such advocacy so-called pork barreling or political influence. At times, each of us is called to be an advocate, whether for a widow who has been denied social security benefits, a disabled worker, or a community that is in severe distress and has no financial resources of its own to provide means for job creation.

In none of those instances is any of the advocacy we apply doing something purely for the political gain. We are here to represent people and needs and solve problems. That is an area that perhaps we ought to pursue at some length in another forum. I did want to voice those concerns.

Now, in your reference to support for the President's Caribbean Basin Initiatives, that was a matter our Subcommittee on Economic Development inquired into at a previous hearing. Could you list the projects that were approved for the Caribbean area, the economic distress to be relieved by those projects, and whether the country or countries or areas to be so assisted are specifically mentioned in law, such as the Virgin Islands, Puerto Rico, Guam, American Samoa, Trust Territories of the Pacific, all of which were specifically mentioned in the Local Public Works Act in previous years and under the EDA program. Those are specifically designated beneficiaries of the program in addition to the contiguous 48 States and Alaska and Hawaii.

Mr. **Krouse.** Well, if I understand your question, No. 1, we have not really investigated the Caribbean initiatives program in any depth. We do know, however, that the existence of that program or even a discussion of that program did trigger some action in the Economic Development Administration. And one of the large technical assistance grants that was made went to the Caribbeana Council here in Washington.

That money was targeted at six small Caribbean nations, I believe the largest of which is the Dominican Republic. In fact, I think it is overwhelmingly the largest. The other five are fairly tiny.

Mr. **Oberstar.** Who is the Caribbeana Council?

Mr. **Krouse.** The Caribbeana Council is a nonprofit organization dedicated to promoting joint ventures between United States and Caribbean businesses and particularly minority businesses.

Mr. **Oberstar.** Which countries in the Caribbean does it purport to assist?

Mr. **Krouse.** I knew you were going to ask me that. I know the Dominican Republic is the largest, and the others are very small.

Mr. **Oberstar.** The Lesser Antilles?

Mr. **Krouse.** Yes. In fact——

Mr. **Oberstar**. Including Saint Kitts?

Mr. **Krouse**. I don't think Saint Kitts is one of them.

Mr. **Oberstar**. Grenada?

Mr. **Krouse**. I don't believe Grenada is one of them. But you are getting warm. If I could, I would provide that for the record.

Mr. **Oberstar**. Would you please provide that information at this point in the record. I know there are areas of great distress in the Caribbean. I lived for 3½ years, in Haiti, an area that frankly triggered my keen interest. My previous experience was as a student in Belgium after World War II at the College of Europe, studying the problems and the successes of economic rebirth and redirection of Western Europe.

In Haiti I saw the most distressed country in the Western Hemisphere. I know there is great economic distress in the Caribbean. I don't know that EDA in any of its explicit legislative authority extends U.S. financial assistance to any of those countries other than Puerto Rico and the Virgin Islands.

Mr. **Krouse**. Mr. Oberstar, I have found the six countries.

Mr. **Oberstar**. Could you read them into the record.

Mr. **Krouse**. Dominica, Barbados, Jamaica, Antigua, Saint Lucia, and the Dominican Republic.

Mr. **Oberstar**. With the exception of the Dominican Republic, the others are members of CARICOM, the Association of Caribbean Economic Community Nations, recently involved in the incidents in which the United States invaded Grenada. Those are Lesser Antilles nations, with the exception of Jamaica and the Dominica.

Was there any person who is the beneficiary of that technical assistance grant from a distressed area of the continental United States?

Mr. **Krouse**. I cannot answer that at this time. This is one of the grants that we intend to take a careful look at. A fairly substantial amount of money is involved. It has gone to this organization called the Caribbeana Council.

There is a private management type organization operating out of the same office. This is the kind of arrangement that the Inspector General in the Commerce Department has said per se constituted a questionable arrangement, but still there have been grants to two or three of these kinds of organizations that we know have been made.

We will be happy to provide more information about this particular grant. To date, $304,000 has been passed through the Council plus another $250,000 has been made available as a revolving loan fund.

Mr. **Oberstar**. $304,000 plus $250,000?

Mr. **Krouse**. That is correct.

Mr. **Oberstar**. As a revolving loan.

Mr. **Krouse**. $304,000 from the Economic Development Agency and the Minority Business Development Agency. There is a comingling of funds from those two. And then another $250,000 has been made available as a revolving loan fund.

Mr. **Oberstar**. Oh, that is splendid. That is marvelous. I know several areas in the continental coterminous States that could use such funds and have been denied.

When was that project approved, that technical assistance grant approved? Was it prior to June 1983?

Mr. **Krouse**. I am sure the original money was. The money has been made available in two or three stages.

Mr. **Oberstar**. There was a stage at which the House considered the Caribbean initiative, which has now been signed into law. But this was a technical assistance grant approved in pursuance of a policy not yet enacted into law.

Mr. **Krouse**. That is correct. That I am sure of.

Mr. **Oberstar**. Subsequent to enactment of the CBI one could raise questions about the propriety, but at least not about the legality. One could raise a question of legality of approval of such grant to an area not covered by specific law of the United States.

Mr. **Krouse**. In the previous administration this same organization requested a grant and it was turned down by the Financial Review Board in the Department of Commerce. We asked Mr. Campbell about that. He said he thought it was worthwhile, that he had confidence in the people running the program. He didn't say at the time it was consistent with this emerging Caribbean Initiative, but I think this was implicit in what he was saying, and therefore he wanted the grant to be approved.

Mr. **Oberstar**. There could be some rationale if the grantees were seeking to stimulate trade between enterprises in a distressed area in the continental United States and one of those Caribbean nations.

Well, I would like to proceed to another point that you raised. You commented that the management consultant firm of Price Waterhouse has recommended that responsibility and accountability for the public works project selection process be shifted back to the regional offices. Was that a novel recommendation?

Mr. **Goebel**. I am not certain it was a novel recommendation, Mr. Oberstar. I think they probably read quite well the feelings of the regional people themselves that there was where the process properly belonged at the initial stages, and I am certain that it was something not new, but perhaps a bit surprising to the Assistant Secretary himself.

Mr. **Oberstar**. I am quite sure it came as a great surprise to the Assistant Secretary.

Was the Price Waterhouse study funded out of EDA moneys or out of departmental moneys?

Mr. **Goebel**. I believe those were departmental moneys. I believe the contract was really with the Department of Commerce, and the EDA portion of it was, as I said, just a portion of a larger contract with the Department.

Mr. **Oberstar**. So at least EDA did not pay an outside consultant to tell it something that had been agency practice, proven, tried, tested, true, for many years. All right.

Is the directive of Mr. Campbell of October 28 a reflection of that recommendation of Price Waterhouse, directing authority back to the regional offices?

Mr. **Goebel**. I really could not respond, Mr. Oberstar. I have not seen the directive.

Mr. **Oberstar**. I have it. Correction. It is October 25—"Delegation of Authority," memorandum for Regional Directors, from Assistant Secretary for Economic Development, effective November 1, 1983:

"You will be delegated authority to do four things." I will submit this memorandum at this point in the record.

Mr. **Levitas**. Without objection, it is so ordered.

[The memorandum referred to follows:]

[From the U.S. Department of Commerce, Washington, D.C., Oct. 25, 1983]

Memorandum

To: Regional Directors.
From: Carlos C. Campbell, Assistant Secretary for Economic Development.
Subject: Delegation of Authority.

Effective November 1, 1983, you will be delegated the authority to:

Approve all planning grants for eligible districts within your region (both 301(b) and 302(a) of PWEDA);

Approve technical assistance grants for eligible entities within your region, regional offices will be allocated a total of 50% of all technical assistance program funds available to the Agency;

Authorize public works grants of $500,000 or less for all eligible entities. Prior to authorization, headquarters is to be notified in writing of your intention to authorize an entity to submit an application, and this office will advise you within ten (10) days of receipt of your notification if there are any restrictions on that proposed action:

Approve public works grants authorized as stated above. Headquarters continues to retain the authority to announce the approval of grants.

We learned today that the Economic Development Administration received its approtionment of program funds under the Continuing Resolution on October 11, 1983 (OMB Bulletin 84-1, paragraph 6.b). The Continuing Resolution (P.L. 98-107) provides up to 12 percent of the annualized level appropriated. Below is a list of the level of funds apportioned and the regional allocations.

Apportionment for continuing resolution

Public works	$21,390,000
Economic adjustment	2,880,000
Planning	2,355,000
Technical assistance	700,000
Research and evaluation	175,000
Total	27,400,000

ALLOCATION OF PROGRAM FUNDS FOR REGIONAL OFFICES FOR PUBLIC WORKS, TECHNICAL ASSISTANCE, AND PLANNING

[In thousands of dollars]

	Public works	Technical assistance	Planning
Regional offices:			
Atlanta	4,706	77	518
Austin	3,208	52	353
Chicago	3,636	60	400
Denver	1,284	21	142
Philadelphia	4,920	80	542
Seattle	3,636	60	400
Total	21,390	350	2,355

Please note that projects developed in fiscal year 1983 and approved this fiscal year by this office will be charged against the respective regional allocations.

This office will issue a policy guidance memorandum to you on fiscal year 1984 programs soon. Also, we will publish the selection criteria for EDA's programs in the Federal Register as soon as possible.

You are instructed to begin developing projects for consideration in this fiscal year. Until official guidelines are established, use your discretion in developing projects and rely upon the guidance given you in fiscal year 1983. There will not be substantial policy changes from the previous policy guidance given you for fiscal year 1983.

Thank you for your attention to this matter.

Mr. OBERSTAR. That memorandum merely, as I read it, reflects the past practice of EDA on a sound management basis. It is good to have that past practice confirmed by a reliable, responsible accounting management firm such as Price Waterhouse. Yet it is disappointing too. It is a cause for sadness that the Government had to pay good money to have that judgment rendered.

I have some other questions. Perhaps I can come back to those at a later point. Thank you very much, Mr. Chairman.

Mr. LEVITAS. Thank you.

Mr. Clinger.

Mr. CLINGER. Thank you very much, Mr. Chairman. I, too, would like to commend Mr. Goebel and Mr. Krouse again for your testimony and the excellent work you have done in preparing for these hearings.

Following up on some of the lines of questioning that have occurred previously, the chairman alluded to the fact that in former life I had occasion to observe EDA on a day-to-day basis. And at that time the processing for regular title I/title II basic programs of EDA was largely done in the regional offices. They at that time had full complements of people—legal, environmental, civil rights, engineers—to review the projects, and they then would forward them to Washington for final review.

Basically that review consisted of kind of looking over the shoulder, double-checking what had been done in the regional office, and the final sign-off was done by the Assistant Secretary. Rarely in my experience did the Assistant Secretary second guess or countermand a project that had reached his desk through a fairly elaborate screening process that began—basically the substantive work was done—at the regional office.

You have testified that that process or procedure was considerably changed, certainly as far as the emergency jobs bill portion was concerned. After that bill, everything was basically done, sent in to Washington, handled in Washington. But you also indicated that as far as title I/title II projects were concerned, those were still being handled at the regional office, or was I wrong about that?

Mr. GOEBEL. It is our understanding that the regular program proceeded as you just outlined it, although as you indicated, too, the extent to which the Assistant Secretary personally inserted himself in the project review and approval process prior to approval is perhaps unprecedented.

Mr. CLINGER. That is the point I wanted to make. The difference, then, was that the screening was basically done at the regional office for the regular EDA program, but that there were many more occasions apparently when the Assistant Secretary took a personal review and, in fact, did reverse projects on occasion.

Mr. GOEBEL. Yes, that is correct.

Mr. CLINGER. One of the advantages that I feel that the process of regional office review has is that you are able to limit your input. In other words, using the EDR's and the regional office personnel, as you indicated, Mr. Goebel, they work closely with the project applicants. There is a preapplication procedure that is gone through. And again from my past experience, a number of projects would be discouraged up front as not meeting the requirements of the legislation, as not generating the kinds of jobs that were contemplated under the legislation. So that once a project was accepted for consideration by the agency, it was pretty sure that that was going to go through, unless there was some unusual circumstance that would have precluded that.

Would that be your understanding?

Mr. GOEBEL. Yes.

Mr. CLINGER. So that you did not get a large number of projects into the process.

It seemed to me from the beginning that one of the things that could have been accomplished, if the regional offices had been involved in the project review process for the emergency jobs program, would have been to hold down the number of projects that were submitted. By virtue of the fact that they were all handled here in Washington, I know from having talked to some of my regional development planning commissions, they basically took everything off the shelf that they had and submitted it, because they were not really clear on what the standards were going to be, what the criteria were going to be. They just felt they had to throw in everything in hopes of getting something out of the process.

And we prevented that from happening, it seems to me, by not using the regional offices for that project review where EDR's, regional office personnel, could have discouraged certain project applications from being made. That to me was one of the reasons that we ended up with such a crunch at the end, because as you indicated there were 2,900 applications to review and it was just very difficult to give those anything more than a cursory look at the time.

And as you suggested, there may be problems down the road with some of those projects because they were not given the kind of thorough review at the regional office. In that regard, I think, Mr. Krouse, you indicated in your testimony that some of the EDA personnel that you talked with felt there may be as many as 25 percent of the 211 projects that were approved that may fall out for various reasons.

Could you amplify on that a little bit? Do they give you reasons why they felt that high a percentage of projects might never go to construction?

Mr. KROUSE. To complete the task, EDA had to work furiously in the last few days to obligate all $100 million. Of course, as we have covered here, the job was concentrated right here in Washington.

There are a number of environmental, civil rights, minority business requirements that have to be met. Sometimes EDA had to write conditions and qualifications into a grant to meet the deadline. Sometimes perhaps an engineering estimate was hurriedly prepared. The feeling is that the grantees in many cases have entered into agreements that they are going to have great difficulty carrying out in the real world and therefore will not be able to take some of these projects to construction in an orderly and rapid fashion. Thet will run into problems because the conditions and qualifications that have been included shortcut regular processes and requirements.

Mr. CLINGER. One of the things that Mr. Oberstar alluded to was the memorandum directing that there would be a decentralization, going back to the regional offices. I guess you have not seen the memorandum so perhaps you cannot answer this. Did that refer to the emergency jobs money that will be available next year—I think it was approximately $40 million included in the appropriation next year for emergency jobs treatment, targeting, et cetera. Was that what he was referring to in stating that there would be a decentralization to the regional offices of project review? Or was he talking about regular program activities?

Mr. KROUSE. Quickly looking at this copy that has been made available here, it looks like he is talking about the regular program. In fact, I think the timing—October 25—would precede the final appropriation for the Commerce Department of 1984 and up to that final appropriation jobs bill projects were not included.

Mr. CLINGER. Well, that confuses me a little bit, because apparently, putting aside for a moment the fact that the Assistant Secretary took a much more direct role in final project approval, the processing was being done at the regional offices last year, and so this would seem to me to be redundant to say that we are going to now decentralize title I activities when that has been the situation to date.

I wonder—my feeling is that we might well decentralize the processing of the emergency jobs funds as well. But according to the memorandum that is not the case?

Mr. GOEBEL. In that regard, Mr. Clinger, it will probably be very interesting to note when, in fact, that decentralization of processing of jobs bill grants does take place. In our conversations with the Assistant Secretary, he alluded to, as his rationale for centralizing everything in headquarters and processing those particular applications, the fact that the jobs bill was enacted relatively late in the fiscal year—I think it was March 24 or 25, 1983—and the fact that he felt that the regional offices were perhaps a little bit slow and behind, and maybe overburdened, in processing the regular program applications for the fiscal year. And when point-blank asked the question, "If you had it to do all over again would you involve the regional offices in processing a similar jobs bill type of program?," Mr. Campbell said, "Yes; we probably would, given sufficient lead time."

Mr. CLINGER. Early on there was an effort contemplated to eliminate some, perhaps all of the regional offices. Was that any part of the consideration in deciding to centralize the emergency jobs program? In other words, the thought that the regional offices were going to be phased out, therefore there was a need to centralize the operation?

Mr. GOEBEL. He made no mention of that in his conversations with us.

Mr. KROUSE. I have heard that speculation, that some of those regional offices were destined to be phased out early in the game. I cannot necessarily relate that to the decision on how they processed the jobs bill, however.

Mr. CLINGER. Well, it is true that the processing of normal EDA projects under title I/title II—for that matter, title IX—is a fairly time-consuming process. It is a very deliberate review. And did he suggest that because of the need for speed that that was the reason that they were circumventing the regional offices, because of the deliberative nature of the normal processing, the feeling that the regional offices were not geared up to do that type of emergency review?

Mr. KROUSE. If I can answer that. He did say that he didn't think the regional offices had the capacity to handle the volume of work that was going to be represented in the jobs bill. As a matter of fact, the regional staffs had been trimmed back.

Mr. CLINGER. That was my next question. You have indicated that the personnel at the agency overall have been cut rather dramatically from a high of 1,000 to less than 500. What are the relative balances between the regional offices and the headquarters? Have the regional offices taken a higher cut than the central office?

Mr. KROUSE. I cannot answer that, Mr. Clinger. But I would add to my previous statement that while Mr. Campbell said he did not think the regional offices were up to the task, we talked to four of the regional offices, and three of the four told us they considered themselves up to the task.

Mr. OBERSTAR. Would the gentleman yield?

Mr. CLINGER. I would be happy to yield.

Mr. OBERSTAR. I would just like to make the point for the record that the gentleman from Pennsylvania and I met fully a month before the emergency jobs bill was signed into law on March 24—only a month prior to that we met with the Assistant Secretary to discuss the upcoming jobs bill, the strain that it would put on the agency, and urged upon the Administator a course of action to anticipate the signing into law of that program, and assuring that full administrative resources would be available. We were told since there was not a law in hand, nothing could be done. In fact, not much was done until well over a month after the bill was signed into law. And—I don't remember specifically—I know separately we discussed with the Administrator, subsequent to the signing into law of the act, the need for regulations to be promulgated in a timely fashion, and to harness the resources of the available regional and staff of the EDR's.

It is not without prodding and warning that he went into the administration of that jobs program.

Mr. CLINGER. Have you had an opportunity to look at the kind of projects that were approved under the emergency jobs program in comparison with the types of projects that are approved under normal EDA authorities?

Mr. GOEBEL. I have not, Mr. Clinger.

Mr. KROUSE. No, neither one of us have.

Mr. CLINGER. I was wondering if there was any substantive difference between the types of projects that perhaps would have warranted a different treatment. I gather that the main reason given for that was the need to expedite; it was felt that the expedition could take place more rapidly in Washington than at the regional levels. I guess we still have unanswered the question of whether that is the intention for the next round for which there is money going to be available for emergency jobs treatment, whether that is part of the proposal to decentralize to the regional offices.

It is still unclear.

Mr. KROUSE. To clarify the October 25 memo, it is not.

It does not cover this next round of jobs bill projects. It gives to the regional offices authority to approve all planning grants for eligible districts, to approve technical assistance grants for eligible entities within their regions, and to authorize public works grants of $500,000 or less for all eligible entities. Three categories.

Mr. CLINGER. So that still doesn't answer the question of what would happen to the emergency jobs bill.

Mr. KROUSE. That is correct.

Mr. CLINGER. Thank you very much, Mr. Chairman.

Mr. LEVITAS. Thank you.

Mr. Molinari.

Mr. MOLINARI. I just have one or two more questions, Mr. Chairman.

I would like to refer to your testimony where you quote some high level career executive estimates that 25 percent of the 211 jobs bill grants that were made will not go to construction, or go to construction only with great difficulty. And then you go on to say that the reason which that official gave was because the grants were being frantically processed to meet the September 30 deadline.

And this is where I was before, when I was making reference to the fact that they were racing the clock.

Were you able to get any reading as to how many of these applications will go down the tube because of the fact that they were processed hurriedly? The 25-percent figure is a very high figure. At least in my mind it is.

If they are in jeopardy, I am wondering why. Do we have any better reading as to why that statement was made?

Mr. KROUSE. Well, the statement was made, as I indicated in answer to Mr. Clinger's question, because of the way the process was compressed, particularly pertaining to environmental requirements, civil rights requirements, even engineering estimates, minority business provisions, and so forth.

People signed grants providing assurances. The individual who made the estimate believes that in many cases they don't realize what they have now committed themselves to do. When they really get down and take a careful look it is going to be very difficult to bring a project to construction under the timetable that is envisioned.

Mr. MOLINARI. Is there any way you were able to make a comparison as to that percentage from fiscal year 1983 and any prior years?

Mr. KROUSE. Well, these were jobs bill projects, so there would be nothing to compare it with in previous years.

Mr. MOLINARI. One last question.

The turnover here in the headquarters—you have made reference to the fact that there is a morale factor and a performance factor because of turnover. You mention there were two top jobs in the agency that had at least two occupants in each position this year. When we are talking about top level positions, I would have to wonder what impact that is going to have upon the agency and the performance of the agency.

Were you able to evaluate what that is going to do to the agency's performance?

Mr. **Krouse**. Well, ordinarily that kind of turnover among your top officers I would say would have a demoralizing effect. It takes a while just to orient, for a new executive to be oriented. However, the way EDA has operated, and with more and more authority concentrated with Carlos Campbell himself, perhaps it has not made as much difference as it would in another organization. That is my opinion.

Mr. **Molinari**. We are talking about the Deputy Assistant Secretary and the Deputy Assistant Secretary for Finance.

Mr. **Krouse**. That is correct. The number two position and the number, I would say, depending on how you would rank these people, the third or fourth or fifth position.

Mr. **Molinari**. With two vacancies in each one of these fields this year?

Mr. **Krouse**. Yes.

Mr. **Molinari**. Were you able to interview those that left at all?

Mr. **Krouse**. Some of them we have. Not all of them.

Mr. **Molinari**. Did they give you reasons why they left?

Mr. **Krouse**. Various reasons. They are usually a bit circumspect in talking about management style, but certainly that is one of the factors.

Mr. **Molinari**. Is it fair to say it was probably due to the Assistant Secretary's attitudes or positions?

Mr. **Krouse**. Well, the top person and some of his top subordinates should work fairly closely together. I know in some cases at least—we have not talked to all of these people—they have had difficulty working with Mr. Campbell. And they have said so.

Mr. **Molinari**. Mr. Chairman, I have no further questions. I would just like to, as ranking minority member of the subcommittee, heap applause on our two staff members for a job truly well done. There is a tremendous amount of research you have provided to us that I read assiduously. You did a fine job. I am proud to have you both on our staff.

Thank you.

Mr. **Levitas**. Thank you, Mr. Molinari.

Mr. Oberstar.

Mr. **Oberstar**. Thank you, Mr. Chairman. I would concur in the comments and commendation of the gentlemen from New York. It is a splendid piece of work, in the fine tradition of this Investigations Subcommittee operation.

You refer to the role of the Inspector General of the Commerce Department. I note that the IG has maintained EDA has not serviced past loans properly. That is a matter of some very great concern to me. Our subcommittee has held a hearing on the disposal of the loan portfolio, in which some very questionable practices were raised.

At that hearing, some initial questions were raised about servicing of the loan portfolio, as compared to simply disposing of it. There is an obligation on the part of the EDA, as expressly stated in the Public Works and Economic Development Act of 1965, in the intent of Congress as expressed in the committee reports, that this agency is to provide a higher level of care to those loans that it has advanced, because they are made in distressed areas with usually a high level of economic difficulties.

Because of those economic difficulties, these areas are not prime targets for private sector bankable loans, collateral, heavy investments. These are high risk venture capital areas with unusual needs.

The agency in the past has devoted a considerable amount of time to servicing delinquent loans. It was our experience in the hearing already mentioned that the agency had abandoned the concept of servicing the loans and simply turned to selling them off as a means of getting rid of that portfolio, getting the problem off its hands.

Could you expand upon that comment about EDA not servicing past loans properly and elucidate further specific examples, perhaps recommendations by the IG, for anything the agency should do or shortcomings you have found in the course of your inquiry in servicing those loans.

Mr. GOEBEL. One of the criticisms that the Assistant Secretary particularly cited as coming from the Inspector General in the Department was the allegation that the field regional people in EDA who were in charge of servicing the business loan and loan guarantee program were failing to adequately project the Government's security interest in collateral at times when, for example, the borrower might go to another potential source of funds and pledge the same collateral against the loan.

I don't know all of the particulars, but it seems the perception was that at times the failure of the regional people to protect the collateral may have resulted in the Government's security interest becoming a second lien against the collateral, as opposed to its normal priority in those types of transactions.

Mr. OBERSTAR. Mr. Krouse?

Mr. KROUSE. Mr. Oberstar, you might be interested in a paragraph that was written in a recent letter from Mr. Randall, C. Dale Randall, formerly the Acting Deputy Assistant Secretary for Finance, to the IG complaining about a draft IG audit that was issued in October.

It has not yet been publicized. But in the letter to the IG, dealing with the draft report in which the IG was very critical of EDA along some of the lines that we have covered here already, Mr. Randall says:

> While the report has a number of conclusions and recommendations. the apparent thrust is stated on page 9: "Overall, EDA's loan servicing can be characterized by a *complete lack* of management aggressiveness for debt collection and a *disregard* for protection of the Government's financial interest." (Emphasis added.) This is a description of EDA's portfolio administration that we would challenge for any time in our history, but particularly for the present time. Current EDA management has implemented a variety of loan administration improvements to reflect departmental debt collection, policies and procedures, as well as OMB regulations and guidelines.

So what you have is the IG and OMB and the management of EDA all moving in the same direction as far as handling the loan program, with the IG saying you are not moving fast enough, and this is bothering people in the administration as per this paragraph.

Mr. OBERSTAR. That is one aspect that I am glad to have on the record. In my opinion, it is unfortunate that Mr. Randall is no longer there, for the direction that apparently he was willing to provide.

I had in mind the servicing of loans that includes EDA personnel working with the business or industry to help them overcome their problems, to get current on their back payments, to help them find their way in their operation of the business, which was assisted by EDA funds.

Is there any evidence of interest on the part of EDA in providing that kind of servicing?

Mr. KROUSE. While Chris is thinking, let me add a thought there. We have talked to the top loan people in two of the regional offices, and they would like to be more aggressive in servicing loans.

They just do not have the people. In fact, the way one of them stated, it was words to the effect we make a loan and then we just pretty much walk away from it.

Mr. OBERSTAR. So there is a willingness on the part of professional staff persons in regional offices to provide the kind of loan servicing intended under this program, but the staff resources are not available?

Mr. GOEBEL. At the time we interviewed the Assistant Secretary, Mr. Oberstar, Mr. Randall was present also, and the Assistant Secretary was heaping quite high praise on Mr. Randall's background and capabilities, indicating that he fully intended to delegate increasing responsibility for the headquarters' review of business loan and loan guarantee programs to Mr. Randall, and it was his hope that with the right type of training and management initiatives—presumably to come from Mr. Randall—that gradually what had occurred in terms of centralizing the loan program then could be reversed and program authority shifted back out to the regions.

Mr. OBERSTAR. Why did Mr. Randall depart then from such high praise heaped upon him and willingness on the part of the Administrator to delegate authority and give him an opportunity to correct a major problem area?

Mr. GOEBEL. I think that is one thing Mr. Krouse alluded to earlier, that we really don't know and will likely be in contact with him if we are able to follow up.

Mr. OBERSTAR. It would seem a tragedy almost that a person of such caliber and with such insight into this program is discredited. We will await your finding.

There was an allegation in your presentation which we have heard through other sources as well about sex discrimination officially lodged by a number of female employees of the agency. Can you provide us a status report on those complaints?

Mr. LEVITAS. If I may, Mr. Oberstar, I would like to request that we reserve any discussion of the sex discrimination matters to the subsequent hearing as part of the discussions that we had previously with officials in the Commerce Department. We note the existence of those.

We have a good bit of information about them developed by the staff, but I would prefer if you would agree to put off those questions——

Mr. **Oberstar**. I didn't intend to get into the substance of it, just the status of where that stands.

Mr. **Levitas**. You can respond to that, Mr. Krouse.

Mr. **Krouse**. There are five cases and all five are under investigation by the Equal Opportunity Office in the Commerce Department.

Mr. **Oberstar**. So those are merely in an investigation status?

Mr. **Krouse**. That is right. That is the first stage in going through a rather lengthy process to achieve resolution.

Mr. **Oberstar**. That is all I wanted to know, the official status. My compliments on a splendid piece of work over many, many months.

Mr. **Levitas**. Mr. Clinger.

Mr. **Clinger**. Just a final comment in view of what Chairman Oberstar was saying. I think there has been, over the years, criticism and controversy surrounding the title II business loan area. Some of that information is controversial as to how many of those loans are actually in default, how bad off are we really in terms of the business loan area. I just want to make the comment that the bill which Mr. Oberstar and I cosponsored, we felt addressed that very issue because of the fact that there had been so much controversy about the business loan area and the apparent difficulties in administering and servicing a loan portfolio from headquarters, Washington.

We addressed that issue by, in effect, decentralizing the business loan activity, making it the responsibility of the local sponsoring organization to service and keep on top of those loans.

We felt that that was going to be a much better way to insure that the money was not being wasted or lost, and I just think it is ironic that we go through this when all the administration would have to do would be to accept H.R. 10, which we think very adequately addresses the concerns that they had about the business loan area.

Thank you, Mr. Chairman.

Mr. **Levitas**. Thank you, Mr. Clinger.

I just have one last question. Based upon your investigation to this point, have you found any activity or action or failure of action that you consider either to be illegal or to be a direct refusal to follow express requirements of law as passed by Congress?

Mr. **Krouse**. No, Mr. Chairman. We have asked that question several times. We do not find any illegality. We do find questions of propriety in the way some things have been handled, but there is nothing that at this point we would regard as a criminal type offense.

Mr. **Levitas**. As far as the impropriety matters are concerned, to the extent they may relate to the present Assistant Secretary, we will get into that at the subsequent hearings that I referred to earlier.

I have no further questions. I want to commend both of you for the fine work that you have done in your investigation and in your presentation today.

I am sure you will accept the praise given to you with total aplomb and accept it also as your Christmas gift from the committee.

Today being the eve of Hanukkah, I suppose it would be appropriate for me to mention it is your Hanukkah present also. Thank you very much.

The next witness that we are to hear from is a representative of the National Association of Development Organizations. I understand Mr. Chris Page is here, is that correct?

Mr. Page. Yes, sir.

Mr. Levitas. Was Mr. Kelley able to——

Mr. Page. Mr. Kelley has been unable, because of the postponement of the hearings, to attend today. The testimony he would have delivered is included in the written text that has been submitted for the record, and I will try to highlight some of the points that he would have made.

Mr. Levitas. That is fine.

[Witness sworn.]

Mr. Levitas. Thank you very much, Mr. Page. You may proceed as you do desire, and we welcome you to the hearings today.

The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

Statement by Chris Page, President, and Vernon R. Kelley, Secretary, on Behalf of the National Association of Development Organizations

INTRODUCTION

Mr. Chairman, members of the Committee on Public Works and Transportation, I am Chris Page, Executive Director of the Economic Development Council of Northern Vermont with offices in Saint Albans, Vermont. With me is Randy Kelley, Executive Director of the Three Rivers Planning and Development District of Pontotoc, Mississippi. Randy is the elected Secretary and I am the President of the National Association of Development Organizations (NADO). We are testifying today on behalf of the members of NADO.

Both Randy and I serve as full-time directors of economic development districts in rural areas. I would like to give you a brief review of how the current situation at the Economic Development Administration (EDA) has affected local efforts to create private jobs. Because Randy's district is both an economic development district and a local development district, he will discuss the difference between and actions of EDA and the Appalachian Regional Commission (ARC) which has also been slated for phaseout by the President.

NADO is pleased to have been invited to open these bi-partisan hearings on the Economic Development Administration because our members are a part of the grassroots mechanism which helps to implement the EDA programs in local communities. It is incumbent upon me first to mention that it was with some trepidation that we accepted the Subcommittee's invitation to testify at these hearings. We have no interest in attacking the agency and thereby giving additional ammunition to the opponents of its continuation. Rather, our interest is in contributing to the improvement of EDA as an economic development agency assisting our nation's distressed communities.

Our members have been intimately involved with this program since its inception and we continue to be professionally concerned about the agency's future in fiscal 1984 and beyond.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

The National Association of Development Organizations was founded in 1967 by a group of economic development districts to promote in small communities and rural areas. Today our members are multi-county planning and development organizations and other state and local agencies which help local governments and the private sector work together to create and retain jobs.

NADO's longstanding policy is to avoid any attempt to interfere in EDA's internal management, unless management style and actions are adversely impacting program delivery and opportunities for improved agency performance. We consider EDA's operational policies and procedures of the types subject to comment through Federal Register processes to be more pertinent to economic development district functions than are the details of EDA's internal administrative management.

However, we are quite naturally concerned about the effects of internal management upon the reputation of the agency and the consequences for congressional support. These perspectives have shaped our testimony before the Subcommittee today.

ECONOMIC DEVELOPMENT DISTRICTS

For thousands of communities, development district staffs provide the only professional assistance to governments, businesses and citizens in the field of economic development. By working cooperatively through economic development districts, local governments and the private sector can maintain and create jobs with a minimum of control from Washington and maximum local participation. The district approach to job creation has developed a partnership between local governments and the private sector which is exactly what the Reagan Administration is supporting and encouraging through such programs as the Job Training Partnership Act (JTPA) and Small Business Administration (SBA) Certified Development Companies.

There are approximately 300 designated and funded economic development district serving small metropolitan and rural areas throughout the country. EDA encouraged the formation of these substate regional institutions to help provide a multijurisdictional approach to development and continues to provide them with small planning grants of approximately $40,000 per district. The seed money has created a "institutional infrastructure" to provide professional assistance to local governments and businesses in areas where little or no development expertise would otherwise be available. We are concerned that the turmoil within the agency and the disagreement between the Administration and the Congress over the future of the agency could serve to undermine and eventually destroy this institutional infrastructure which EDA has provided.

Clearly, economic development districts are institutions historically closely associated with EDA and its programs. As such, they have a vested interest in seeing the agency administered well. If the public perceives EDA to be mismanaged, the perception may trouble economic development districts with a form of guilt by association. This raises a very counter-productive possibility.

EDA's investment in economic development organizations has paid off not only for local governments and businesses, but also for many other federal and state agencies and their programs. For example, most of SBA's Section 503 Certified Development Companies have been established by economic development districts. We feel that it would be indeed unfortunate if problems within EDA were to have the secondary effect of inhibiting or even precluding economic development districts from being accepted as valuable program delivery agents for other development-related agencies.

EDA INVESTMENT AND MANAGEMENT

While the total EDA budget for 1984 is small ($240 million) in comparison to other federal development programs, it has provided the kind of flexible and useful funding which has been crucial to the economic well-being of many small towns. EDA has been able to deliver its programs to rural areas because it was designed to respond to rural needs while other programs such as the Urban Development Action Grants (UDAG) have not been able to serve rural communities. Without the professional expertise provided by EDA through the economic development districts the most remote, lowest income communities with the least resources would have no ability to participate in any economic recovery. While large local governments have staff resources and access to the latest information through publications and travel, rural communities have no funds to even subscribe to the Federal Register or obtain technical assistance to help them with their service delivery problems.

We believe EDA's investment in development districts has paid off and will continue to do so, if the agency can once again operate on a well-managed, carefully designed basis where the districts along with EDA's national and regional offices work together toward thoughtfully developed economic goals.

There is no doubt that the agency has been slated for phaseout by the Reagan Administration and that this has caused great turmoil and uncertainty within the agency's professional staff and among those of us who have been working with their programs for many years. Although we cannot provide details regarding the internal operations of the agency, our impression is that EDA has in fact had some significant management problems. External perceptions, not solely among economic development districts, are that the agency has been beset by internal turmoil. There have been numerous internal reorganizations and shifting of experienced staff from one position to another within the agency.

The continuing uncertainty regarding the agency's future has affected the morale of the personnel and has resulted in staff turnover through retirement and transfer. We believe that EDA's clientele will long suffer from the effects of counter-productive relationships within the agency and that the legacy of the current Administration is one of poor labor-management relations.

IMPLEMENTATION OF THE JOBS BILL

The centralized administration of the EDA portion of the 1983 Jobs Bill is often criticized and offered as an indication of one set of ill effects from inadequate management. In this regard, we are submitting as a part of this statement an exchange of correspondence between NADO and Assistant Secretary Campbell. We ask you to review these documents which give specific evidence about actual management problems experienced in the operation of an EDA program.

During the early days of the Jobs bill program, NADO staff were in the unusual situation of providing information both to our members as well as many EDA regional office staff regarding the latest information about requirements being made by the central office. While EDA was not deliberately withholding information from anyone, by completely centralizing the process it became difficult to quickly disseminate new information to the field.

Many NADO members were told that our weekly newsletter, NADO News, was the most timely and accurate information available to field staff on the Jobs bill. Failure to promptly transmit information to the regional and field staff led to confusion and rumors. Once again morale of field staff suffered because they were not a part of this important process. These kinds of misunderstandings can be easily avoided by purposely including all EDA staff in the flow of information regarding specific programs such as the Jobs initiative.

One of the reasons that we accepted your invitation to testify today is our hope that through these hearings we may be able to develop a meaningful dialogue between the present leadership of EDA and those of us at the local level and in the Congress whose only interest is in seeing that communities receive the kind of economic development assistance that they need in these difficult economic times.

There are ways to manage a program that is being slated for cutback or phaseout so that the agency personnel and their clients can operate in a responsible fashion that does not undermine the agency's goals nor destroy staff morale. We hope that these hearings will result in such an effort to restore both the morale and the good management that EDA needs to be effective once again.

APPALACHIAN REGIONAL COMMISSION PHASEOUT

Many of NADO's members are both economic development districts and local development districts under the Appalachian Regional Commission which serves the 13 Appalachian states. Therefore, our members are in a position to compare and contrast the phaseout management of both the Economic Development Administration and the Appalachian Regional Commission (ARC).

While our association does not support the dismantling of either EDA or ARC, we believe that there can be responsible management of a program even under circumstances of uncertainty and eventual phaseout, if the heads of such agencies will operate the programs using good principles of management.

While the Administration has called for a phaseout of both EDA and ARC, the management of these similar but distinct programs has been totally different. The Commission which is composed of the Governors of the 13 Appalachian states and a Federal Cochairman adopted a bipartisan finish-up program in response to a congressional request for such a plan.

The plan was widely discussed with officials at the state and local levels including local development districts. ARC sponsored special studies of the availability of state and local resources for development purposes. Particular emphasis was placed on helping local development districts become more self-sufficient and less dependent on federal aid. Special training was encouraged for districts so they could learn about new private and public resources.

Because of the Administration's commitment to federalism and decentralization, we believe that the ARC model is one that should be carefully examined as a sensible pattern for federal-state-local management in a time of declining public resources.

The continuing decline in state and local revenues because of the recession and the reduction in federal funds which assist development in rural areas, make it unlikely that localities will be able to sustain economic development programs on their own. We hope that the Congress and the President will be able to agree on a long-term program which will provide assistance to those small and rural communities which need it.

We are hopeful that in receiving testimony from Assistant Secretary Campbell the Subcommittee will help those of us at the local level to understand what the Administration's plans for management of EDA's fiscal 1984 programs will be. It is in the interest of all of us as taxpayers that districts and others have a stable, predictable set of operating guidelines for the fiscal year which is already two months old. It is not efficient to operate on a short-term, unpredictable basis if we are to get the most for our money.

CONCLUSION

The members of the National Association of Development Organizations are willing to work with the Congress and the Administration to develop a program which responds to any past criticisms of the agency. We have been working closely with Rep. James L. Oberstar (D-MN) and Rep. William Clinger (R-PA) for the past several years to develop authorizing legislation which would meet the Administration's objections to the EDA program as it now exists. The passage of H.R. 10, the National Development Investment Act, the inclusion of EDA in a Continuing Resolution during the past three years and the strong national support for the program, make it unlikely that the agency will be abolished.

We think it is time to get on with our jobs of encouraging economic development in small towns and rural areas and we hope that the Administration will help us to do that by agreeing to sit down and talk with us about how we might do that in a cooperative way.

Last week we had a meeting with Assistant Secretary Campbell and his senior staff in which he indicated to us that he will be providing training to EDA personnel so that they can be more helpful to districts and others who need assistance from the agency. We hope this is a positive sign that augurs well for the future.

On behalf of our members I want to thank the Chairman of the Subcommittee on Investigations and Oversight for convening these hearings and for his continuing support of good management of federal programs. We will be happy to assist you in any way we can, and to answer questions.

REPORT ON THE ECONOMIC DEVELOPMENT—ADMINISTRATION'S IMPLEMENTATION OF THE EMERGENCY JOBS STIMULUS ACT OF 1983 (RI. 98-8)

The National Association of Development Organization's Board of Directors at its meeting of June 20, 1983 discussed some of the problems encountered by development organizations and local governments in attempting to comply with the requirements of the Economic Development Administration (EDA) for applications under the Emergency Jobs Stimulus Act (PL. 98-8).

This analysis of certain problems encountered has been prepared in the interest of improving EDA's administration of programs in the future. It is being distributed to the members of NADO, the Assistant Secretary for Economic Development and the members of the House and Senate Public Works and Appropriations Committees. We would welcome the opportunity to discuss and clarify any of the points made in this report. NADO's officers and Board would be pleased to work with EDA's top management and Members of Congress to insure that the agency learns from its experience with the Jobs Act program and avoids repetition of mistakes in the future.

First, the amount of money ($100 million) provided by the supplemental appropriation is small enough that, in our opinion, it could have been administered through EDA's existing field structure without creating an undue hardship on EDA's field personnel. As matters stand, in order to run a separate program at the central office level EDA apparently was forced to borrow personnel from the Army Corps of Engineers and to hire a number of temporary employees. Such personnel augmentation could just as well have been provided at the regional office level.

Even with the sufficient justification for administration of the emergency jobs funds at the central office level, in our opinion EDA's top management should have involved its field staff in an informational mode. The fact is that EDA's field staff is contacted many times a day by potential applicants and their representatives who are seeking information about EDA programs. It reflects badly on the agency and its management when EDA field personnel are not well-informed with up-to-date information on a program and are not in a position to render even minimal technical assistance regarding potential applications.

Aside from the disposition of personnel resources and the assignment of responsibilities within the agency, which are subjects we generally try to avoid in deference to agency management's judgement, we are distressed by the requirement for submission of full applications with a rather brief lead time and without the benefit of a screening process based on preapplication descriptions (profiles) of proposed projects. It is extremely costly for small, relatively poor, rural local governments to prepare the more complex full applications and provide the required engineering reports. Most must rely on consulting firms for the engineering work and the time constraints have tended either to preclude applications due to such firms' existing work loads or to escalate the charges for such work due to the necessity for overtime pay. Given the substantial expense, applying for needed grant assistance becomes an unacceptable gamble, both fiscally and politically, for many small, poor jurisdictions.

The negative effect of the expense of application preparation has been compounded by the lack of clear, concise information about the application process and the absence of specific criteria for selection of applications for grant awards. Simply publishing regulations in the Federal Register does not adequately inform eligible rural local governments, some of which feel that they cannot afford the price ($300.00) of a subscription to the Register and others of which do subscribe but receive their copies, many days after publication (a problem shared by development districts in rural areas). Regulations setting new eligibility standards for PWIP which were published May 23, did not reach some rural areas until mid-June, only a few weeks before the July 1 deadline for project submission. Unfortunately, even with a copy of the regulations in hand, such potential applicants are not sufficiently informed. The regulations are, in fact, silent, vague, or confusing on many important points. For example, it appears that the rules issued on April 29, 1983, are purposefully vague about the consideration of applications received by EDA after July 1. More important, however, is the fact that they refer to eligibility criteria under Title I of the Public Works and Economic Development Act and Section 101(a) of P.L. 98-8 without explaining said criteria or even cross-referencing other regulations which might do so. Such an omission represents an unwarranted assumption that potential applicants would be famililar with such eligibility criteria or have ready access to explanations thereof. Requiring each applicant to write and ask for an eligibility determination, also slowed down the process considerably.

It is worth noting that NADO's Executive Director suggested to Commerce Department consultants involved in designing EDA's process for administering Jobs Act funds that EDA conduct a one-day workshop in each standard federal region to explain the program and receive comments from potential applicants. Although several development districts conducted workshops in an effort to assist local governments, EDA missed its opportunity for relatively lowcost outreach and the benefits which would have accrued to both EDA and its clientele.

For those entities which did get information, the eligibility determination process often proved a problem. Unfortunately, EDA used fourth class mail service to respond to screening requests, which translated into delays of as much as two weeks in the receipt of EDA's determination by potential applicants. Compounding the problems caused by such dealys was the omission of civil rights forms and other items from many of the application packages mailed to eligible entities.

To give credit where it is due, EDA did set up the "DOC-JOBS" telephone number to call when forms were omitted and information was needed. Although the toll-free number is a good idea, the personnel assigned to handle inquiries often have not been able to respond in a well-informed or specific manner. It is our perception that this solution is due to several factors, including the apparent reluctance of EDA's management to make precise desicions or to reveal the substance of such decisions pertaining to matters such as criteria for project funding.

One example of the confusion which has not been the fault of the "jobs hot line" personnel, although they may have contributed to the problem, is the confusing situation created by EDA's issuance of new rules dealing with the Public Works Impact Program on May 23, 1983. Potential applicants for PWIP project funding under the Jobs Act did not know if the new rules on PWIP applied to applications submitted pursuant to favorable eligibility determinations made by EDA prior to May 23. Unfortunately, the new rule did not state whether determinations qualify as project authorizations unaffected by the new rule.

Another example of confusion pertains to dissemination of incorrect information about acceptable sources of local matching funds. Yet another pertains to the ten percent bonus for applicants within the Economic Development Districts and other provisions of law relating to the maximization of requirements for local matching funds. It is our observation that while such provisions remain legally in force, it appears that EDA management has decided informally that a "leveraging" criterion will be applied in the funding of projects, thus obviating the intent of Congress that EDA require relatively little or no local match from fiscally distressed applicants. We find it highly irregular that a countercyclical program is being conducted in such a fashion.

In summary, the principal problems we have observed seem to stem from a lack of sensitivity to the problems facing small, relatively poor, rural local governments and a failure to communicate adequately both within EDA itself and with the agency's clientele in the field.

As a result of EDA's failure to communicate clearly, thoroughly, precisely, and expeditiously with potential applicants, many poor quality applicants may be received while applications dealing with good projects will not be submitted.

It is our suggestion that if EDA is given responsibility for a similar program in the future, the agency should thoroughly inform and involve its field staff, at least to the extent of assisting potential applicants, and should provide copies of more precisely drafted rules directly to every development district, free-standing redevelopment area, and local government representing an eligible area (e.g., a UDAG pocket of poverty). The agency should conduct a workshop in each federal region to explain the rules and gain feedback on their practicality. The toll-free number should be reactivated, but with better information, to deal with relatively complex and policy oriented questions and problems. A project profile based pre-application process should be designed to minimize front-end costs for potential applicants while meeting necessary time constraints. Potential applicants should be given as much time as possible to prepare their pre-applicant profiles and applications, in the interest of enhanced project quality. Consideration should be given to the fiscal situation of applicants, unless Congress decides otherwise, and the official unemployment rate should not be the principal criterion for judging need in rural areas, for which employment/unemployment data is notoriously inaccurate and fails to indicate factors such as poverty.

U.S. DEPARTMENT OF COMMERCE,
Washington, D.C., August 10, 1983.

MS. RACHEL DOBSCHA,
President, National Association of Development Organizations,
Washington, D.C.

DEAR MS. DOBSCHA: Thank you for taking the time to express NADO's concerns about the Economic Development Administration's (EDA) administration of the $100 million appropriated to it under the Emergency Jobs Act (P.L. 98-8), and for the report you prepared at the direction of your Board of Directors.

We appreciate the National Association of Development Organizations (NADO) informing us of its concerns, and we welcome the opportunity to discuss with you further the procedures the Agency is using to comply with Public Law 98-8.

We have read your letter and report carefully, and agree with some of your criticisms of our administration of this program. In noting these comments, we have taken action to correct deficiencies where it is possible at this time. The following paragraphs consist of our response to your report.

In your letter you assert that, "* * * the agency has made the application process unduly cumbersome and time consuming, * * *" Your statment went on to note the advantage that larger governments have over the smaller ones in competing for the limited funds available under the Jobs Act. We have recognized this inequity before with our other programs; this problem is not unique to the Jobs Act program and its process. We are taking steps to ensure that we can negate this inequity with any future programs the Agency may be called upon to administer.

We respectfully disagree with you about the application process being cumbersome and time consuming in its relation to the Jobs Act. Because of the limited time avilable to the Agency, we took steps to shorten the application process, bypassing the preapplication stage. The forms used by the Agency for the Jobs Act program are the same forms used for our regular public works program. We have not in any way made them more complicated.

We believe that the Form 101A, the primary form used by the Agency, is in need of revision and simplification. Several weeks ago, I initiated action to have the form improved.

While you state that it is NADO's opinion that the Jobs Act program could have been administered by the field, you ignored several very important factors of why it was not. An historical perspective may help you in understanding why we choose to centralize the process.

In October 1982, the Congress passed a Continuing Resolution directing that EDA programs continue at the FY 1982 level ($198.5 million on an annual basis). However, the Office of Management and Budget apportioned only $44 million, since the first Continuing Resolution covered only the period of October 1 through December 17. On January 5, that apportionment was actually reduced to $17 million pending action by the Congress on the proposal to defer EDA funding and subsequently transfer funds to the Small Business Administration.

As part of the FY 1984 budget presented to the Congress in January 1983, the Administration proposed a reduction of $181.9 million of EDA's program level for FY 1983. Of that amount $158.5 million was to be placed in a deferred status and $23.4 million was to be returned to the Revolving Fund pending Congressional action on the Administration's proposal to transfer $158.5 million to the Small Business Administration to help cover potential defaults in the Business Loan and Investment Fund.

On March 10, 1983, Congress denied the deferral, thereby requiring that the funds be made available to the Agency's programs for which they were originally appropriated. It was not until March 11 that EDA received its full appropriation for Fiscal Year 1983 of $198.5 million.

With the uncertainty of the budget process, the slow action by Congress, and the Administration's continuing commitment to phase out the Agency, EDA got a late start in the development of its regular programs. This delay caused concern among senior Agency officials earlier in the fiscal year as to whether or not EDA could meet its program requirements by the end of the fiscal year.

Thirteen days after EDA received its full apportionment for the regular program, Congress passed House Resolution 1718, the Emergency Jobs Act, on March 24, 1983, and it was signed into law later that same evening by the President.

Following discussions with my senior staff, I decided to centralize the Jobs Act program in our Headquarters offices in Washington. I then believed, as I do now, that it was important not to weigh down the regional offices with more work than they could handle.

Moreover, the Regional offices had not been processing their *existing* case load in time to meet pre-established deadlines. Much to my chagrin, one Regional Director told me there was a deliberate "slow down" to delay a forthcoming reduction-in-force.

Further, with the importance that Congress attached to the Act, I believed it important to retain control in Washington so that we could closely monitor the activity of the program as it progressed.

It is important to note that the decision was based solely on the tremendous workload of the field at that time. If the Jobs Act had been passed earlier in the fiscal year, I would have assigned the responsibility of developing the program to the field.

EDA was not, "apparently forced to borrow personnel from the Army Corps of Engineers". Early on in our preparation for the Jobs Act, we considered the use of the Army Corps of Engineers for some limited technical work. This option was one of many we considered. We are not using their services, nor that of any other Federal agency, in the administration of the Jobs Act.

You stated that EDA should have involved its field staff "in an information mode about the Jobs Act". We did! Enclosed is a copy of my memorandum for our regional directors and economic development representatives dated May 26, 1983.

While we can understand that you were "distressed by the requirement for submission of full applications with rather brief lead time and without the benefit of the screening process * * *", as I described above, we did not have much lead time ourselves in preparing for the Jobs Act portion of our program. We did not have the luxury of a preapplication process. Such a process, in the limited time available to the Agency, would have created a time consuming and cumbersome process for the Agency—either at the field or headquarters level.

We respectfully disagree with your view about the "lack of clear, concise information about the application process. * * *". Aside from our notices in the Federal Register and the information contained in the application packages, we took the initiative to meet with representatives from public interest groups, Congressional office staffs, and representatives of various gubernatorial staffs. The purpose of these meetings with the various groups and representatives was to get the word out through as many avenues as possible. On May 3, 1983, we held a briefing for public interest groups; our records show that NADO had three representatives at that meeting. It was our belief that meetings such as that one would generate additional public awareness about the program through the organization's newsletters, or the like, to their members.

The facts belie your assertion that EDA was not effective in informing potential applicants about the Jobs Act program. In response to EDA's April 29 notice in the Federal Register, the Agency received over 6,000 requests for applications. Of that 6,000 2,130 were returned to us by the close of business July 1, with more than 400 arriving in the next few days.

As you noted in the report, EDA was purposely vague about the July 1 date for the consideration of applications received after that date in the April 29 Federal Register announcement. To be precise, we used the following language: "It may not be possible for EDA to consider applications received by EDA after July 1, 1983."

This choice of language was deliberate. We needed to have a cut off date should the number of applications be overwhelming in number, and, if not, an opportunity to allow a sufficient number of applications to be considered.

You correctly noted that EDA used fourth class mail in responding to screening requests. This was an unfortunate oversight on our part; however, we were able to correct the mistake early in the process.

You state, and we quote in part, "* * * the apparent reluctance of EDA's management to make precise decisions * * *." This is an unsubstantiated comment which we would invite you to address to us precisely.

You criticize EDA's issuance of new rules for the Public Works Impact Program, on May 23, 1983, stating "* * * the new rule did not state whether determinations qualify as project authorizations unaffected by the new rule." In effect, you asked whether a determination of eligibility for targeted Jobs Act funds qualifies as the authorization of an application for the purpose of exclusion from a new, graduated grant rate system for PWIP projects.

Such determinations of eligibility clearly do not constitute authorization of applications. Neither the interim regulation nor the Jobs Act program information for potential applicants contains any suggestion that the two processes are equivalent in effect. The Federal Register notice of availability of Jobs Act funds establishes that determination of eligibility for Jobs Act funding is a necessary preliminary step to filing an application.

Since NADO is familiar with EDA program operations, your members must realize that "authorization of an application" is an EDA term of arts with specific meaning, not equivalent to EDA's "determination of eligibility." Therefore, it is highly unlikely that the amendment to the grant rate regulations has created the type of confusion you have suggested.

Finally, we have had to take steps to improve technical sufficiency and othewise improve quality control to avoid waste of the taxpayers dollars.

Thank you for bringing your concerns to our attention. I trust you find our comments responsive and our methods constructive.

Sincerely,

CARLOS C. CAMPBELL,
Assistant Secretary for Economic Development.

Mr. LEVITAS. Please proceed.

TESTIMONY OF CHRIS B. PAGE, EXECUTIVE DIRECTOR, ECONOMIC DEVELOPMENT COUNCIL OF NORTHERN VERMONT, INC., SAINT ALBANS, VT.

Mr. PAGE. Thank you very much, Mr. Chairman.

Mr. Chairman, distinguished members of the committee, I am Chris Page, the executive director of the Economic Development Council of Northern Vermont, located in Saint Albans, Vt. I am also the elected president of the National Association of Development Organizations, and it is on the association's behalf that I am testifying here today.

As I indicated earlier, I was to be accompanied by NADO secretary Randy Kelley from Mississippi, but Mr. Kelley could not attend today's hearing. I offer you his apologies and, as I said, I will try to summarize his remarks with mine.

The National Association of Development Organizations was founded in 1967 by a group of economic development districts to promote development in small communities and in rural areas. Today our members are multicounty planning and development organizations and other State and local agencies which help create jobs and work together to create and retain jobs.

NADO is extremely pleased to be invited to open these bipartisan hearings on the Economic Development Administration because our members are a part of the grassroots delivery system which implements the EDA programs at the community level. At the same time, I would be less than honest with the members of this committee if I did not tell you that I had initial reservations about testifying at this hearing. NADO has no interest whatsoever in attacking the Economic Development Administration and thereby supplying additional ammunition to opponents of the agency's continuation.

Our members have been intimately involved with this program since its inception. We maintain a healthy professional concern about the agency's future in fiscal 1984 and beyond that. Thus our interest here today, like this committee's I am pleased to learn, is in contributing to the improvement of EDA as an economic development agency. This ongoing commitment to improvement and effectiveness is essential if we are to serve this Nation's distressed rural communities.

It has been our association's longstanding policy to avoid interference in EDA's internal management unless our membership perceives actions that adversely impact program delivery or represent missed opportunities for improved agency performance or coordination. However, NADO is quite naturally concerned about the effects of internal management upon the reputation of the agency and the consequences for future congressional support.

At the same time, we are concerned about the potential external effect on the delivery system, the economic development districts. For thousands of communities across this country development district staffs provide the only professional assistance to governments, businesses, and citizens in the field of economic development.

In my own six-county district only 1 community out of nearly 100 has professional staff dedicated to development, and 60 percent of that staff's time is committed to housing rehabilitation. Rural areas like northern Vermont cannot hope to prepare for or to benefit from economic recovery using inconsistent or part-time technical resources. Nothing short of concentrated professional assistance is going to give rural America the needed institutional strength to attract and maintain a permanent employment base.

The 300 economic development districts in this country have been the key to providing these services in small metropolitan and rural areas. Encouraged by EDA and supported with small planning grants which average about $40,000 per district per year, these sub-State regional organizations provide a myriad of planning, development, packaging, technical assistance, research, municipal and financial services to local governments and to businesses. The partnerships that we have been able to forge between local governments and the private sector have attracted the interest of programs such as the Job Training Partnership Act and the Small Business Administration's certified development company 503 program. Both of these programs have been strongly supported by the Reagan administration.

These programs recognize the inherent value of the rural network that has been so carefully constructed over the years by the EDA. Many service delivery areas for the Job Training Partnership Act will be economic development districts. Most of SBA's 503 companies are economic development districts. NADO's board and its members are concerned that the turmoil within EDA combined with the disagreement between the administration and the Congress could serve to undermine and eventually destroy this institutional infrastructure.

A secondary and, we believe, equally debilitating effect of this continued upheaval is the potential for economic development districts to be inhibited or even precluded from acting as valuable reliable delivery agents for public or private development activities. There is widespread knowledge throughout local governments and the private development community of the debate over EDA. From my personal experience, this has resulted in a recurring need to reassure potential developers and my constituent communities that the promised technical assistance can be delivered.

It is with the support of Congress and the determination of local governments we serve that we have not defaulted on those promises. Our ability to coordinate public/private involvement when combined with the flexible and very useful funding that EDA provides has been crucial to the economic well-being of many small towns.

For example, the technical assistance and research funding that was referred to by Mr. Krouse previously has been in the past very successfully used in many districts around the country, including my own. Efforts in the late 1970's and into 1980 to bring together experts in the field of labor, employment training, and recreation have finally resulted some 3 years later in a very progressive program that will provide service industry training that is very badly needed in northern Vermont.

The basis for this new program was originally an EDA technical assistance grant. Quite simply, EDA has been able to deliver in rural areas. It was designed to respond to rural needs. It was designed to respond on an appropriate local scale. Other programs such as Housing and Urban Development's UDAG grant program are unable to function effectively in the limited scope of a rural market. Without EDA the most remote, lowest income communities with the least resources will not participate in this economic recovery.

When I leave Washington today I will be returning to my home county to meet with local firms and business leaders who currently are facing two plant closings and a likely shutdown of a local rail line. The total unemployment impact that these closings could have is 300 people. This in a labor market of only 6,000. It will take all the professional forces that we can muster collectively to reverse this drastic situation. We hope to succeed using the public/private cooperation that our district has fostered during the 10 years of its existence. In this way EDA's investment in districts truly does pay its own way.

These benefits can only be increased if the agency can once again operate on a well-managed basis where districts and EDA's national and regional offices work together toward thoughtfully developed economic goals.

While we cannot provide you with details of the internal operations of the agency, our impression is that EDA has, in fact, had some significant management problems. External perceptions among districts and others familiar with the agency are that EDA has been beset by internal turmoil. There have been numerous reorganizations, shifting of staff, reassignments of responsibility and authority. Continuing uncertainty about the agency's future has affected morale and certainly has resulted in staff turnover. The example most often cited, in management discussions at least, is EDA's handling of the 1983 jobs bill.

Included with our prepared statement you will find an exchange of correspondence between NADO and Assistant Secretary Campbell regarding specific management problems experienced in the operation of the jobs bill program. The most crucial of these problems was the centralization of the process. This centralization led to a slow and very sporadic flow of information. Regional offices, EDA field representatives, and economic development districts were hard-pressed to supply potential applicant communities with timely and accurate information. This was particularly important since the application process did not conform to regular EDA program methodology.

Many districts attacked this problem in a variety of ways. In northern Vermont we felt it was imperative to take the initiative to contact communities ourselves and give them the latest information that we could regarding the jobs program to insure that they would not, if they had projects we felt would not be competitive, would not attempt to make application. Other districts, particularly those in the Far West, pulled together regionwide conferences to disseminate what information was available on the jobs program.

We believe that problems such as this are easily avoided by including a wider range of EDA personnel in the information flow. In the case of the jobs bill program there is no doubt that this could have saved substantial time, effort, and money. One of the reasons that NADO accepted your invitation to testify today is our sincere hope that through these hearings we might develop a meaningful dialog between the EDA leadership and those of us at the local level and in Congress whose sole interest is in seeing that rural distressed communities receive the economic development assistance that they need and deserve in these difficult times.

We are encouraged, Mr. Chairman, to learn that you share this sentiment. If this hearing initiates a process by which the morale and effective management of EDA is restored, then we will have been successful in our efforts here today.

NADO Secretary Randy Kelley had hoped to share with you some additional management observations. His district and other members of NADO are both economic development districts and local development districts under the Appalachian Regional Commission, which serves the 13 Appalachian States.

NADO does not support the dismantling of EDA or ARC as proposed by the Reagan administration, but we do believe that there can be responsible management of a program even under circumstances of uncertainty or phaseout. The ARC has implemented a phaseout plan with several key elements. The plan has been designed with the direct participation of State and local governments. Special assessments of local and State development capacity have been performed. Special training and interregional exchanges have been financed by ARC to strengthen self-sufficiency among districts. Financial resources for development have been evaluated. ARC has cooperated in project packaging efforts to insure that the maximum number of high-priority needs are addressed with the available funding. Local development district operations have not been disrupted. This is extremely important. The continuity of service has been assured and the working relationship with ARC remains intact.

These management strategies provide a sensible pattern for rural areas already faced with declining revenues to plan for their economic future. It is imperative for all of us working at the local level to have a stable, predictable set of operating guidelines. It is not efficient or practical to operate on a short-term basis as we now are doing in a fiscal year already 2 months old.

The members of NADO are willing to work with Congress and the administration to develop a program which responds to past criticisms of EDA. We have worked closely with Representative Oberstar and with Representative Clinger for the past several years to develop authorizing legislation to effectively address the administration's objections to EDA, while still serving the needs and the best interests of rural America. Last week we had the opportunity to meet with Assistant Secretary Campbell. He indicated to us that EDA personnel will be receiving training designed to better equip the staff for working with districts and other agency clients. We hope that this is a positive sign. The bottom line, however, is that it is time for us to get on with our jobs of encouraging economic development in the small towns and rural areas of this country. I hope that we can all look forward from this hearing with an enthusiasm and a determination to get that job done.

I want to thank you, Mr. Chairman, for convening these hearings and for this committee's support of effective management of Federal programs. Our association will be happy to assist you in any way that we can, and if you wish I will try now to respond to any questions that you might have. Thank you, sir.

Mr. LEVITAS. Thank you, Mr. Chairman, for your testimony and that of your colleague on the position of NADO on this matter. As you point out in your statement, your interest and that which I expressed on behalf of this committee are very much the same. Our main purpose is to get EDA back on the track to do the job it should be doing in the most effective way possible, and for whatever reason that has not been the case in the last couple of years.

We have both made reference to the fact that EDA and its personnel seem to be caught between a philosophical disagreement between the administration and the Congress, but that does not mean that the agency, whatever its mission is as presently defined, should not be doing the job that it is statutorily set up to do.

I read in the paper today that the Assistant Secretary may be leaving that position in the near future. You made reference to some of the problems that NADO has seen or expressed concerning EDA's implementation of its mandate. Do you feel that this announcement, if it is correct, will have any impact or make any difference with respect to the concerns that you have addressed?

Mr. PAGE. The majority of our concerns, Mr. Chairman, have arisen from lapses in communication, we believe, with regional offices, with field organizations that represent EDA's interests. I cannot speculate on any changes that might occur because of the Assistant Secretary's leaving. I felt in our meeting last week that the attitude he expressed regarding an increase in information, an increase in responsibility to regional staffs, a desire to provide effective training for EDA staff, was a step in the right direction. If indeed those policies are carried out under his eventual replacement, I think we have every reason to believe that that would be a very positive thing.

Mr. LEVITAS. I am curious. Had you had previous meetings with the Assistant Secretary?

Mr. PAGE. Not until he appeared at our annual conference here in Washington in October. At that time he spoke to the NADO membership and offered some perspectives on the way the agency would be working under his administration during the coming year. It was at that time that he issued an invitation for us to meet with him to talk about specific issues.

Mr. LEVITAS. And was the subject that you discussed last week discussed by the Assistant Secretary in his address to your organization meeting?

Mr. PAGE. It was essentially. It was a discussion of how the program would operate during 1984. Our discussions with him last week left us with the impression that there would certainly be a significant decentralization of the EDA operation.

Mr. LEVITAS. And that would constitute a reversal of the prior policies of the present administration; is that correct?

Mr. PAGE. Yes, sir.

Mr. LEVITAS. What are your major concerns about the future of EDA?

Mr. PAGE. Our major concerns, Mr. Chairman, are obviously, No. 1, the continuation of funding the Economic Development Administration programs. Those programs have provided the most flexible, the most responsive funding for development projects in rural areas. Second, there is a need for consistency within the program. That we believe can be accomplished only through reauthorization of the agency's programs. Finally, renewed communications, a clear direction within the agency, and sound management—those things are vital if we are to be successful in our efforts.

Mr. LEVITAS. Why cannot other Federal agencies perform the role that EDA is performing, particularly for rural communities, for example, Farmers Home?

Mr. PAGE. In the past few years we have seen a significant cutback in funding Farmers Home business and industry programs in rural areas. Those cutbacks have trimmed away much of the development money that previously had been used in conjunction with other resources to put together development projects. In addition to Farmers Home, we have attempted to use the HUD urban development action grant program. That has not been an effective tool for rural areas. The leveraging factors are extremely high given the small capital base in most rural communities. EDA is really the one agency that has been effective at delivering those services on a smaller scale.

Mr. LEVITAS. What has been the impact from your perspective of the administration's announced intention to abolish EDA in light of what has happened in the interim, between that time and to date?

Mr. PAGE. That impact has surfaced in the management issues that we are discussing here today which ultimately feed down to those of us in the districts and communities that we serve. As I indicated in my testimony, I have had to explain many times to potential private sector developers whose investment in my area I badly need that my organization could continue to deliver technical services to them and would continue to be the factor that brings together the private and public sector within that community. The private developers are very concerned about that. They read the papers. They know that EDA has been under fire for some time. They are concerned about the stability of those local organizations. Within the district organizations throughout the country there has been a good deal of internal turmoil. It is very difficult to operate long-range programs on a short-term basis. This inability to know where the program is headed and the lack of knowledge about potential funding for the program has made it very difficult.

Mr. LEVITAS. Well, you heard testimony today that EDA is a troubled agency, that it is at present suffering from low morale, that there is a confusion as to its purpose and objectives at the present time, that there has been a substantial turnover in personnel, including high officials in the agency, and you have just made reference to the problem of the start-and-stop funding situation. Under those circumstances, and I ask you this as a person out of the trenches, so to speak, how are you able to keep the thing going at all at the local level, given that litany I just laid out?

You are working with an organization that has low morale, that has had a tremendous turnover in officials. We heard in the staff testimony that over 15 percent of GS-14 or above officials have left the agency. There is an announced commitment by the administration to abolish it. There have been several attempts to zero-fund it. There has been a centralization and then a decentralization. There have been problems with processing the grants. We hear today that 25 percent of the local public works grants may not ever go to construction, or if so under great difficulty. How do you do it?

Mr. PAGE. If I may be so bold, Mr. Chairman, I think that at least a portion of the strength of the Economic Development Administration lies in the network of economic development districts that have been established throughout this country. Mine and the 299 other districts around this Nation are forged from partnerships with a variety of local governments, private organizations, private sector people. We have found a certain amount of strength and ability to carry on using that network of people. We have developed over the years a credibility with private investors, with our financial institutions. Using every method we can, we have been able to struggle along, put together effective development projects that we believe are job-creating, that we believe will create permanent employment, and none of the phony jobs that were referred to in earlier testimony.

I have seen those jobs. I have been there and I can tell you that they do exist. It is by no means an easy battle. I am grateful to be here today, to be honest with you. It has been a long, tough struggle, and there are a number of districts around the country that were not able to make that struggle. The desire of the communities was there to support them but the fiscal resources simply were not available.

Mr. LEVITAS. Is part of the ability to have survived this period the hoped-for light at the end of the tunnel represented by Congressman Oberstar and Congressman Clinger and the Congress in general that maybe this position would prevail and reason would win out and that this day would indeed arrive?

Mr. PAGE. Absolutely, sir. This committee and this Congress have shown at least all of us in the field that there is hope, and that you do understand what local economic development is about and how it is best implemented. And while that does not bring home the paycheck on Fridays, it sure does make it a lot sweeter.

Mr. LEVITAS. Thank you very much, Mr. Page.

Congressman Molinari.

Mr. MOLINARI. Mr. Page, could you give us an estimate based on your experience as to what it costs local governments to prepare EDA applications under the jobs bill?

Mr. PAGE. I will try to do that, Mr. Molinari. That has been a very difficult thing to pinpoint. I will speak to that from my experience and from another district with which I have talked. In my own district we submitted two jobs bill applications. This was after a careful review of all the proposed projects in the area. We determined that we had two that were clearly competitive. We went to work full-time with those communities; because of the tight time frame in this program we literally had to contribute full-time staffing to get the applications together in time.

If you take that into account I had one community that on a $300,000 project spent approximately $2,500 in engineering costs. In addition to that, we spent about 4½ days of staff time, which is worth roughly another $1,000. Over and above that there were costs that were borne by the town in terms of application printing, making sure that the applications were received on time, a variety of other clerical types of things. It is reasonable to assume that the application probably cost in the vicinity of $4,000.

Now while that in the broad brush does not seem a strikingly large sum, this particular community is one that has no planning department, it has no development department of any sort, no full-time staff. It has only one paid full-time town manager and a town treasurer. On that basis that is a significant sum for their budget. It is conceivable that if that community had had to hire consulting expertise, if the district services were not available, that that project could have cost significantly more. I had calls from a number of my communities who were early on in the jobs bill program approached by a variety of consultants offering to do applications for flat fees. That is a very difficult decision for a small town to make.

Mr. CLINGER. Would the gentleman yield?

Mr. MOLINARI. Yes.

Mr. CLINGER. Did the project get selected?

Mr. PAGE. That particular project did get selected.

Mr. CLINGER. I suppose a number did not that spent a similar amount of money.

Mr. MOLINARI. I was going to get into that area. Do you know the total number of applications under the jobs bill that were submitted by members of your association?

Mr. PAGE. I would have a difficult time estimating. I will tell you that a large percentage of them I am sure were submitted. Just from talking with our members, I would think it would be a substantial number. Because many of those applications that came from rural areas probably used economic development districts for the technical assistance that they could not otherwise afford.

Mr. MOLINARI. In some places in your testimony, some of the NADO members, in fact you mentioned many, learned of the jobs bill through your own newsletter. Could you tell us whether there is a difference in cost in preparation of an application, whether it is a big city or a small town?

Mr. PAGE. Never having worked in a big city it is going to be difficult. But I will tell you what my perspective is on that.

I suspect it is significantly more costly on a sliding scale for a rural area to produce an application. As I indicated before, there is just a dearth of professional staff available. Many rural communities who do not have access to development districts or other similar associations must bring in professional consultants to do that work. That means advanced engineering costs. It means planning costs that have to be absorbed somehow by the local citizenry in that town budget.

My limited experience with cities indicates that many of them have existing plans on the shelf. They have planning departments. They are in an ongoing process of preparing for public works investments. Small communities don't generally have the wherewithal to do that.

Mr. MOLINARI. Historically, if you or one of your members were seeking to make an application under the traditional EDA programs, I take it you might go to the regional office to seek assistance in the preparation of that application?

Mr. PAGE. Absolutely, sir. The process that we have always utilized has been one of nurturing a project within the community, making sure it is an appropriate project, that the local resources are there to support it.

The second step is to bring in the economic development representative in the area. We have very substantial give and take sessions with that individual in which all aspects of the project are reviewed. He reviews them with an eye toward their acceptability to EDA, whether or not it fits the program guidelines, whether or not it is a reasonable type of project for EDA investment. Then finally the project in a profile form goes from him to the regional office.

The regional office does another intensive review. And during that process the economic development districts often act as the representative for the community, trying to relay messages back and forth, make sure that the information that is provided is clear to both parties.

Mr. MOLINARI. You didn't have those assets available to you under the jobs bill I take it.

Mr. PAGE. No, sir. We had no regional assistance at all.

Mr. MOLINARI. Do you feel that prejudiced the members of NADO?

Mr. PAGE. It was a very serious situation for us. The only access that we had to information was primarily through the telephone line set up by the Department of Commerce. That was very useful.

One of the major problems that I personally found with it was that it was not at all times manned by staff who had immediate answers and who could give us solid information to respond to specific questions.

Mr. MOLINARI. In the normal program application, do you have some idea as to the acceptability of the proposal in working through the regional offices? In other words, if in fact, a proposal didn't seem to have a great deal of merit, might a regional office say to you, "Forget it, don't go any further, save your money, don't prepare your application?"

Mr. PAGE. It is entirely possible, sir. In the past, the regional offices have relied on a preapplication format which for a very minimal amount of money and work would set forth the basic criteria of the project. It would outline the resources that were available for the project. And based upon that, EDA regional offices generally were able to say, we think this project has merit, it is probably worth spending some future engineering money on to go ahead and develop this.

On the other hand, we could get a negative sign. To be honest with you, I have seen times that those negative signs, though I hated to see them come, saved my communities a good deal of money.

Mr. MOLINARI. That is what I was driving at. It seems to me from what your testimony is here today, rural America has been prejudiced by virtue of the lack of the inputs that they normally would have from the regional offices. I am just wondering whether there is any way that your association could provide this subcommittee with some type of analysis, rough as it may be, as to how prejudiced the members would be. Because I get the impression from your written and oral testimony here today that perhaps many of the applicants were forced to go to the expenditure of moneys which may not seem like a great deal to those of us from cities like I am, New York City, but to small communities would be a great deal of money, where perhaps they didn't have the chance of success, but didn't know that.

Is there any way you could provide us with some better statistics so we could make our own analysis as to how that affected the small communities of this country?

Mr. PAGE. Surely. We will make every effort to supply you with some information. As a matter of fact, we would have brought that information with us had our notice of the hearings not been so brief. We do have a NADO board meeting this coming week and I suspect we can begin to pull some of that information together for you at that point.

Mr. MOLINARI. Thank you. I think that would be useful to us.

I have no further questions, Mr. Chairman.

Mr. LEVITAS. Thank you.

Mr. Oberstar.

Mr. OBERSTAR. Thank you, Mr. Chairman.

Mr. Page, thank you very much for your testimony on behalf of NADO, giving a very thorough accounting of your view of the problems and some insights into possible solutions.

I find it interesting that you reported that the Administrator has directed a training program for EDA personnel essentially on how to interact more effectively with development district personnel.

Has any such training program ever been undertaken in the past, in any previous year of existence of the EDA?

Mr. PAGE. To my knowledge, sir, that is a rather unusual step. We have, we being the economic development districts, have always had a very substantial working relationship with EDA personnel at the regional level. It may be that during the past few years, because of the lack of responsibility and authority in regional offices, that there is a feeling that some of that relationship has lapsed.

Mr. OBERSTAR. Has there been a loss of institutional memory on how to deal with districts?

Mr. PAGE. I sincerely hope not.

Mr. OBERSTAR. It strikes me as curious, and hardly a matter on which to commit funds and staff resources, training personnel how to deal with the districts. That is something that should be second nature for EDA. But under the current climate it is perhaps a gesture of change of heart——

Mr. PAGE. Mine was not to question. I viewed it as a positive step.

Mr. OBERSTAR. Yes. Well, let's hope it is a change in policy.

The uncertainty within the agency about funding levels, about staffing levels, about policy direction, about program responsibility, you have alluded in your testimony that these uncertainties have had their effect upon the morale of the clientele.

Could you describe for us in some specific ways how these uncertainties in EDA headquarters have impacted the operation of the districts and their staff, their ability to provide the services to the communities which depend upon the development districts?

Mr. PAGE. I can give you some firsthand experience. I wish that I couldn't. But the uncertainty within EDA in our district during the latter part of 1980, early part of 1981, reached such a pitch that we lost two staff members who were very valuable staff people, one of whom we could no longer support, the other who was young and a very aggressive professional who really felt he had no future in a development organization that so clearly was headed for extinction.

Mr. OBERSTAR. That is a very significant point—the feeling that there is no tomorrow, and qualified personnel don't want to stand in one place marking time. They would rather go on to some other challenge.

Mr. PAGE. That is correct. And it makes it very difficult to attract the caliber of individuals that a district really needs to carry out development programs.

Mr. OBERSTAR. What about the delay in receiving funds for the districts? I know in other hearings that we have conducted of the EDA subcommittee, we have had many reports of delays in receiving funds, which in turn have caused personnel problems for the district.

Mr. PAGE. My fiscal officer blames every one of her gray hairs on EDA. We have had significant cash flow problems with starts and fits of funding. And that has been a serious situation. Some districts from time to time have had to go to the outside and actually borrow funds to cover gaps in payroll.

Mr. OBERSTAR. Tell her that the delay in EDA funding is a reversible process, but regretably gray hair is not a reversible process.

Mr. PAGE. She will be saddened to learn that.

Mr. OBERSTAR. Now, the matter of flow of information to the field on the jobs bill, the legislation that was signed into law on March 24. Fully 3 weeks later, on April 15, the Administrator decided that applications would be processed in Washington, D.C., at EDA headquarters.

On April 19, a task force was created to handle the jobs bill applications. On April 29, the regulations were published in the Federal Register. On May 16, a task force director was named. On May 26, 3,000 inquiries about jobs bill grant applications were received in the headquarters of EDA. At each of those stations that I mentioned, were districts notified at any time, within a day or two of such actions, that such actions had been taken, to your recollection.

Mr. PAGE. In my recollection we were not directly notified. We picked up a good deal of our information from a very capable Washington NADO staff. We picked up a good deal of our information using the telephone lines to the Department of Commerce. Repeated attempts by a number of districts to contact regional offices and pull together clear, concise information about the jobs program met with virtually no response. The regional offices were no more clearly informed than any of the rest of us.

Mr. OBERSTAR. That has an effect on your ability, that is the ability of your own district and districts elsewhere in the country to serve the communities who were seeking assistance, putting people to work under the jobs program, right?

Mr. PAGE. That is exactly right. It became very difficult to explain, particularly to communities who had worked continuously with economic development districts and who had begun to develop a bit of understanding of the EDA process. It was difficult to explain to them why we were no longer receiving responses from the regional office, why our attempts to develop hard information from those sources were unsuccessful.

Mr. OBERSTAR. That created a confidence problem on the part of the communities, either in the districts or in EDA?

Mr. **Page**. It certainly did in some cases. In one instance in my district I had encouraged one community not to submit a jobs bill project because I did not feel it was a competitive one. I discussed it at length with my staff, with members of my board. We felt that it probably wouldn't make the grade.

The community decided instead to seek assistance from a consultant. As a result of that, the consultant called the jobs line and was told that of course that was an eligible project. That was the standard response, that if you have received your eligibility letter, then it is an eligible project. On that basis they went ahead, completed the engineering, submitted the project, and they were not funded.

Mr. **Oberstar**. They were not funded?

Mr. **Page**. They were not funded.

Mr. **Oberstar**. They went through all of that process and cost obviously, and the only one who made out was the consultant.

Mr. **Page**. Yes, sir.

Mr. **Oberstar**. For performing a service that the district would have provided for free and, in fact, did provide for free which would have saved the community a good deal of anguish.

Mr. **Page**. That is correct.

Mr. **Oberstar**. So the centralization of the review process had a demoralizing effect, a delaying effect, and a costly effect for those communities that did not receive any funds.

Mr. **Page**. That is exactly right.

Mr. **Oberstar**. They made an investment betting on the come, as it were, and then did not receive the grant fund for which they applied.

You are certainly right to give praise to the Washington staff for providing information to the district offices during these times of turmoil. Perhaps like our subcommittee staff, those words of commendation may be a Hanukkah and Christmas present all wrapped up in one.

That is indeed a very dismal commentary on the operation of this program. But it is one that I find enlightening, and I think will prove helpful for us in future work that our full committee and the subcommittees will do on the EDA program.

As a final comment, do you take some heart from the Price Waterhouse report and recommendations to Commerce and to EDA about decentralization of the program?

Mr. **Page**. I certainly do. That in the past has proven to be a very effective system. And I think that perhaps the centralization will not have been a total waste if we learn from that, that EDA does not function well in rural areas under a centralized system.

Mr. **Oberstar**. That certainly is true. And that, too, is advise that NADO or any one of its constituent members could have provided EDA free if asked.

Thank you.

Mr. **Levitas**. Thank you very much. And now I recognize the gentleman from Pennsylvania, Mr. Clinger.

Mr. **Clinger**. Thank you very much, Mr. Chairman.

Thank you very much, Mr. Page, for your fine testimony. I think NADO and the various elements thereof are certainly an extremely important part of economic development in this country. I think their worth has been proven over and over again. I believe sometimes there are misconceptions of what a development organization is.

There are concerns about super governments or that you are some sort of a sophisticated grants man's operation. I think it is important to stress that the kind of expertise that your organization has brought to rural areas is really a significant thing. Sure, grants are part of that. The ability to be able to work with agencies of government at the Federal, State and local levels, is critical. But the bottom line is that you have brought a level of professionalism to areas that did not previously have that kind of professional help, and have as a result, I think, made it possible for the rural areas of this country to compete with and to prosper in economic development along with their urban counterparts.

I really have been most impressed with the work of NADO and with the individual members thereof. Certainly in my district they have provided an absolutely indispensible role in helping communities really figure out how to go about development themselves. Too often in the past that has just been lacking.

I think it might be helpful for the record just to get an idea of what an economic development district consists of. How large is your district organization?

Mr. PAGE. Our district staff is three members, sir. We serve a six-county area.

Mr. CLINGER. How do you break down—what are the areas that those three members work in.

Mr. PAGE. We are a single-purpose district. We do solely economic development work. I do general overall direction of the district and I also devote a good deal of my time to the finance portion, packaging loans, packaging a variety of development projects. We have one other person who is a project specialist who deals a good deal with commercial revitalization and commercial development, and we have a fiscal officer as well. We share with another regional organization a variety of clerical and secretarial services.

Mr. CLINGER. Do you administer the revolving loan fund?

Mr. PAGE. Yes, we do, sir. It has been very successful.

Mr. CLINGER. Was that EDA?

Mr. PAGE. Originally capitalized by EDA.

Mr. CLINGER. You have found it to be a very effective tool?

Mr. PAGE. Yes. It is one of the most flexible, one of the most effective tools that an economic development district could possibly hope to have.

Mr. CLINGER. What has been your default rate?

Mr. PAGE. I hate to say this without knocking on wood. We have a zero default rate.

Mr. CLINGER. I thought that might be the case. I am delighted to hear that. How are you funded?

Mr. PAGE. We are funded by the Economic Development Administration through an economic development grant through the State of Vermont, and with contributions from local/regional planning commissions.

Mr. CLINGER. Some of the district organizations I know, in view of the cutback in government at all levels, have developed alternative methods of funding. Are you familiar with some of the activities that districts are engaging in to supplement their income?

Mr. Page. A number of economic development districts have become involved in the administration of the community development block grant program at the local level. That program allows for administrative costs which communities can turn over to nonprofit organizations, economic development districts as an example, for the actual administration of those grants to make sure that they are done in compliance with the law.

Other economic development districts have become SBA-503 companies, certified development companies, offering one more route for raising financial means to support district operations. That, I might mention, dovetails very nicely with the other finance programs that districts are involved with, whether they be revolving loan fund or just general packaging for local financial institutions.

Mr. Clinger. Turning to a discussion of the jobs bill and the problems that you encountered getting information about that and complying with the timetables and so forth, the suggestion has been made that the reason for springing all of those applications into Washington, into headquarters for review, for screening, and ultimate approval or disapproval, was that the formal EDA procedures handled in the regions, the preapplication processes, would have made it impossible for them to complete the job in the time allotted.

In other words, that they were under a deadline of September 30, and if the regional offices had gone through that review process, it would have been impossible for them to meet that deadline.

Do you feel that that is a valid reason for, in effect, circumventing the regional offices altogether?

Mr. Page. I think we have to understand the circumstances of the Jobs Act, the means by which those applications were handled. If indeed full applications were to have been received by the regional offices from that number of applicants, it could have been a very difficult process. If the formal process had been used whereby there was a certain amount of screening done on projects, so that there was a control mechanism, I think the regional offices could easily have handled that load.

Mr. Clinger. It seems to me the time they may have saved in bringing everything into Washington, awaiting regional office review, was more than made up for by the fact that they invited a lot more project applications than they would otherwise have received or had to process, because there would have been a control mechanism early on in the procedure that would have discouraged a number of the projects that came in.

So my sense is there was no real time saving involved here. What we got was a huge inventory of projects with very little time ultimately to really give a thorough going review to those projects.

Mr. Page. That is correct.

Mr. Clinger. I wonder if you were involved in this business at the time of its round 1 or round 2 of the local public works program.

Mr. Page. I was baptized in this business in round 2 of local public works. It was sprung on me 4 days after I took the job.

Mr. CLINGER. I am amazed you are still in it.

Let me ask you this. We have to recognize there was a vast difference here—In local public works round 2, we are talking about $4 billion, a really massive program. How would you compare the two programs in terms of their administration?

Mr. PAGE. I think that despite the upheaval that round 2 of LPW caused at the local level, certainly I marvel at the regional offices' capabilities in processing those applications. I am not certain to this day how or why they responded to all of our phone calls. But they were there, they offered information, they had authority and control over the processes. We had direct access to the regional offices so that we had a clear understanding of what was to be required in those applications.

That, to me, was a significant factor.

Mr. CLINGER. I can recall—I was involved in both LPW 1 and LPW 2.—as part of the preparation for the administration of that program, we took a road show to every regional office, spent 2 days with all of the personnel in each of the regional offices going through chapter, verse, dotting every "i" and crossing every "t", so there was no possibility of misunderstanding in any of the regional offices as to what was intended and how the program was to be administered.

It just seemed to me that was very sadly lacking in the administration of this particular program.

Mr. PAGE. It was. And the regional offices, to go one step beyond that, in many areas did have state discussions following the regional level discussions so that people from all over Vermont had an opportunity to come to a central point and hear regional officials discuss the program. So there was a clear understanding of how it was to be operated.

Mr. CLINGER. We seem to have a little ambiguity as to what is proposed for administering any money that may be attributed to the jobs program for fiscal year 1984. Do you have a clear sense of whether the proposal is to treat those projects submitted for consideration under the jobs bill differently from those submitted, for example, under title I, In other words, is there going to be a two-track system again, or do you understand there to be a single system for project review?

Mr. PAGE. That was not clear from our discussions with the Assistant Secretary, sir. I would hate to speculate on that this morning.

Mr. CLINGER. I thank you very much again, Mr. Page, for very excellent testimony.

Mr. LEVITAS. Thank you.

Mr. Molinari, Mr. Oberstar.

Mr. LEVITAS. Mr. Page, let me express to you personally and to NADO our appreciation for your participation today. I heard your expressed trepidation about participating in the hearings because you felt that it might in some way contribute additional ammunition to the adversaries of EDA. I trust that you leave here this afternoon with a feeling that your participation has contributed to the objectives that NADO is seeking. We certainly want to thank you for taking the time to be here.

Mr. PAGE. Thank you, sir. I do leave with that feeling.

Mr. LEVITAS. Good. Thank you very much.

TESTIMONY OF CHARLES H. LEVINE, SENIOR STAFF MEMBER, ADVANCED STUDY PROGRAM, THE BROOKINGS INSTITUTION; AND IRENE RUBIN, ASSISTANT PROFESSOR OF POLITICAL SCIENCE, NORTHERN ILLINOIS UNIVERSITY

Mr. LEVITAS. The next two witnesses, who I am going to ask to come forward as a panel, are Dr. Charles Levine and Dr. Irene Rubin. If you would come to the witness table and raise your right hands.

[Witnesses sworn.]

Mr. LEVITAS. Thank you very much. If you would take seats at the table. And you may proceed as you so desire. Dr. Levine.

Mr. LEVINE. My name is Charles Levine. I am a senior staff member of the Brookings Institution and hold the Edwin O. Stene distinguished professorship in public administration at the University of Kansas. I have been studying retrenchment in government agencies for roughly 10 years. I want to express my pleasure at being invited to be here today.

From your comments so far, it is pretty clear that you have a good grasp of all the theoretical linkages that we academics have discovered in the last 10 years between management strategy and problems of human resource erosion, problems of over-centralization, problems of living under the pressure of short time spans, and problems of living under government by continuing resolution.

I would like to skip most of my prepared testimony and go to the bottom line.

Mr. LEVITAS. Let me say this. Your prepared testimony, Dr. Levine, and yours, Dr. Rubin, will be made part of the printed record in its entirety. Without objection, it is so ordered. So you may feel free to summarize and make such other comments as you so desire.

Mr. LEVINE. As far as I am concerned there is a right way and wrong way to manage retrenchment in government. As best I can see, the way EDA has gone about this process over the last 2 or 3 years has been entirely the wrong way.

We do have an alternative way to go about retrenchment. I would like to describe it to you, based on the best management theory, and the best of our experience in studying agencies at all levels of government and the corporate world. We have learned much from this experience, and mostly that this is a very tough problem for all managers.

As I said before, however, there are numerous examples of cities, States and Federal agencies that have gone through the retrenchment process with relatively few problems and have been able to revitilize themselves for future effective performance.

From these cases we have learned that agencies which adjust best to retrenchment are those that are able to: First, formulate and stick to a strategic plan with a multiyear timeframe of 3 to 5 years; and, second, are able to develop a political and administrative climate conducive to experimentation with new lower-cost methods for managing programs and delivering services.

Without experimentation and innovation in the methods of program management and service delivery, it is impossible to appreciably improve the productivity of our governmental agencies and consequently service quality and quantity are bound to deteriorate as budgets decline.

The key to managing a contracting organization is to break the vicious cycle which tends to lead to disintegration. To do this, Richard Cyert, who is an organization theorist and the very successful president of Carnegie Mellon University, has argued that the agency's leaders need to define "an equilibrium position at a smaller size," and plan how to get and stay there. To do that, it is necessary to develop a new strategy that defines what the organization will look like at the new equilibrium, what it will be doing, and how it will be doing it.

Such a strategy specifies the agency's purposes, plans, programs, size, and resources. It fixes the future balance between resources and programs—how the programs will employ those resources and, in turn, how the resources will be generated by the program. And the strategy describes how to reach this new equilibrium position.

The two critical preconditions that make this kind of strategic management possible in Federal agencies are: First, that the agency's leadership has a commitment to stopping decline and finding a revitalization strategy; and, second, if they are so committed, they can predict where the decline in resources will level off.

Or, more realistically, they need to decide and predict at what point they can, with the right political strategy, halt the resource decline and obtain their agency's new equilibrium. That is, a point of certainty and stability.

The assumption is, of course, that what the organization does, what purposes and plans it adopts, will influence how far and how fast resources will drop. Thus, the strategic management plan or idea will involve a series of comparisons between the resources required to operate proposed programs and an assessment of what political and managerial actions will be necessary to fund them.

The point to be underscored from this is that retrenchment need not necessarily lead to organizational atrophy. Instead, the "worst case" problems of retrenchment can be minimized with a "turnabout strategy."

However, for this to occur in agencies like EDA that are operating under continuing resolutions, the agency's management must be willing to take the lead in guiding their agency, Congress, the White House, and major constituency groups through the difficult and complex process of defining a new and vital future for the agency. Where this does not occur, where one or more of the key participants in defining the agency's future chooses not to constructively search for a viable future, or where the agency's leaders abandon their leadership responsibility, any hope for avoiding the long-term costs of organizational atrophy will be lost.

Those who fear for the future of EDA believe correctly that the present pattern of retrenchment threatens to produce an agency that is not only smaller and cheaper, but is also weaker, less vital and, as a consequence, less able to accomplish its mission.

The irony of this situation is that in its efforts to cut the cost of government to spur economic recovery, the administration may have lost for the Nation a potentially important asset in its struggle to promote economic development and growth.

[The full statement of Professor Levine follows:]

Testimony of
Charles H. Levine
The Brookings Institution*

before the

Subcommittee on Investigations and Oversight
of the
U.S. House of Representatives
Committee on Public Works and Transportation

November 30, 1983

The retrenchment of federal agencies is a challenging managerial problem. Under the best conditions, to downsize an agency within the rules of the federal government's systems of personnel, budgeting, and procurement, and still maintain acceptable levels of employee morale and commitment, agency performance and long-term capacity requires especially adroit and sensitive leadership. Under the worst conditions, particularly when the White House and Congress are divided over the desirability of continuing the agency at all, the opportunity for administrative clumsiness that causes a decline in employee morale and commitment, a loss in agency performance and long-term capacity seems to rise.

At the Economic Development Administration (EDA) and several other federal agencies targeted by the Reagan Administration for "zeroing out" but continued by Congress on continuing resolutions, organizational decline has been particularly troublesome. The uncertainty created for these agencies, their employees, and their clients when not properly managed, can so negatively affect the agency's operating procedures, human resources, and sense of mission that they are left with paralyzed decision-making processes and depleted human resources that cripple their ability to accomplish their mission in the future.

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* The views expressed are my own and are not necessarily those of the officers, trustees, or other staff members of the Brookings Institution.

Such loss in organizational capacity constitutes a serious erosion of a national asset -- the skills, morale, and commitment of the career civil service -- that must be accounted for in any assessment of executive or leadership performance. The especially sad part of organizational atrophy is that eventually these problems may cause the need for massive additional expenditures to rebuild capacity when these agencies will be called upon to improve the levels and quality of their services.

The uncertainty of "government-by-continuing-resolution" can be managed in several ways — depending on the motives of the managers. Assuming an agency's top leadership takes seriously its responsibility to carry out the agency's mission effectively, the management literature prescribes that the continuing resolution be regarded as a warning sign that consensus about the agency's mission is coming apart and the agency either will need to prepare for a long-term reduction in funding that may lead to eventual termination or find a way to rebuild its political support. In such cases, the uncertainty of funding should be regarded as an environmental disturbance that must be buffered from disturbing the operating procedures and technical core of the agency. The imperative in such situations is to protect the long-term capacity of the agency by smoothing out the turbulence caused by funding reductions and the political "tug-of-war" surrounding the agency.[1]

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[1] See James D. Thompson, Organizations in Action (New York: McGraw-Hill, 1966).

The alternative course of action is more risky and costly in the long run. This is to assume that the continuing resolution is a signal for zeroing-out the agency and to interpret it as an invitation to begin wholesale, agency-wide shut-down procedures. In such cases, employees and clients are put on alert that jobs will be eliminated and programs cancelled. Long-run projects are shelved, and the operating procedures of the agency are reorganized for phase-out activities.

These activities make a considerable amount of sense if the probability that an agency will be terminated is likely. If not, the disruption to the agency is likely to be very damaging for long-run performance. Recently, two federal career employees observed that where consensus about established agency roles and programs deteriorate into prolonged controversy over the appropriateness of a specific policy or social mission, some major long-term difficulties arise:

> A major difficulty is created for the career staff in such agencies. In effect, criticism is often leveled indiscriminately at agency staff for simply doing their jobs. In some cases, the more effectively they do their job, the greater the criticism leveled at them. At a minimum, staff morale suffers. More of a problem, though, is the confusion that sets in once staff loses a clear sense of 'right' and 'wrong' relative to their function. Some will be driven to extremes, testing the new criteria. Others will be driven to inaction, paralyzed by an inability to define utility.
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> * * *
>
> If confusion exists over policy and function long enough and staff are subject to improperly aimed criticism and leave, then an agency in short-term controversy can become an agency in long-term trouble.
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> * * *

> The loss of senior staff during such periods of debate creates a harmful, long-term problem that can lead to added credibility problems.
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> * * *
>
> Improving productivity becomes difficult when an agency is overtaken by uncertainty over either its entire future or funding levels . . . . Talk of 'reductions-in-force' or reorganization tend to dominate agency consciousness.[2]

One particularly nasty variety of this type of organizational decline occurs when political appointees to top management posts interpret continuing resolutions as an opportunity to initiate actions that induce "organizational atrophy" in the hope that sometime in the future the weakened agency will be more vulnerable to termination. This kind of "enemy within" strategy is not only resented by the career employees, but in a perverse way actually achieves at least half its purpose; i.e., the organization is weakened even though it may not ever be terminated.

The cost to the public of this type of behavior should not be underestimated. As the organization theorist Rensis Likert has observed,

> Insensitive and short-sighted cost reduction strategies can result in many unfavorable and costly changes in the human organization that often are not recognized as stemming from this action. It produces less favorable and less cooperative attitudes, greater fear and distrust, more 'yessing' of the boss, poorer communication, lowered performance goals, and greater restriction of production. It also results in increased turnover. This turnover occurs most often among the more able and valuable employees, since they are the employees who, when disaffection occurs, most readily obtain outside employment offers. Labor relations worsen, grievances increase, and work stoppages become more of a problem after a year or two. These and related developments occur when the usual approach to cost reduction is used. All of them reflect a decrease in the value of the human organization.

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[2] Richard E. Schmidt and Mark A. Abramson, "Politics and Performance: What Does It Mean for Civil Servants?" Public Administration Review (March / April 1983), pp. 155-160.

> To produce, say, a five to ten percent decrement in the value of a firm's human organization and its productive capability does not take much loss of confidence and trust; poorer communication; worsened motivation; less concern for quality and scrap loss; greater restriction of production; increased turnover among the better engineers, managers, scientists, and trained workers, and worsened labor relations.[3]

Likert's observations are particularly cogent for several reasons. First, they suggest that the effectiveness of organizations can be easily eroded by shortsighted retrenchment tactics. Second, his human resource accounting approach leads into a consideration of the effects of alternative retrenchment strategies on the "human resource capacity" of government agencies; that is, on their aggregate mix of skills, energy, morale, commitment, and the physical and mental health of their workforces. Finally, we are drawn to recognize that the human assets of our governmental agencies are public goods that are easily depleted if not somehow renewed. Several related questions immediately present themselves: What if working conditions become oppressive? Or if raises fail to keep up with inflation? Or promotion opportunities disappear? Experience and research provide some clear answers to these questions.

Human Resource Erosion

Organizations are structures of opportunity and risk. People join and contribute to organizations for all kinds of reasons -- money, prestige, the need to belong to something, and a host of other explanations. It is the balance between the organization's inducements for its members (employees) and the members' contributions in exchange for those inducements that hold organizations together. An effective organization must maintain a healthy equilibrium between benefits and burdens in order to attract and retain high quality employees. Employees, present and potential, make an investment decision about how much they are willing to invest of their time, energy, and foregone opportunities working in an agency to maintain and improve its effectiveness.[4] A retrenching agency can easily fall into the pattern of neglecting benefits while increasing burdens to make ends meet in the short run. Such decremental retrenchment strategy causes several problems for the long-run performance of an agency. For example, what happens to an organization when it is no longer able to provide inducements to its employees at the same level it used to? What happens to the human resource pool of an organization when its opportunity structure turns lean and the prospects for future career growth and security in that organization become more risky? And, finally, what management strategies can offset the debilitating effects of austerity on the organization's human resource pool?

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[3] Interview with Rensis Likert quoted in The National Academy of Public Administration, The Report of the Ad Hoc Panel on Attracting New Staff and Retaining Capacity during a Period of Declining Manpower Ceilings (Washington, D.C.: NAPA Foundation, 1973).

The answers to these questions are not as straightforward as one might think. Not all organizations slide into a long-run terminal decline when their budgets are cut, and not all employees leave for another set of opportunities. At the core of the problem of coping with decline is the fact that nothing will work if employees believe that no matter what they do, the organization will die and they will be unemployed. If uncertainty, risk, and the fruitlessness of staying on are severe enough, employees will reason that there is no sense investing time, energy, and emotional attachment in an organization that will not be around to reward them or whose opportunity structure will be so lean that it cannot reward those who demonstrate commitment. A declining organization loses prestige, its employees become physically and emotionally stressed, interpersonal relations become strained, the best people leave, and from the perspective of the inducements - contributions bargain, the organization's inducements become discounted because of their limited time value. In response, employees attempt to cut their losses; they disinvest from the organization by reducing their contributions relative to the organization's inducements. The effect is that the organization's store of rewards buys less -- becomes inflated -- because the long-term probable payout from an employee's investment is reduced drastically by the riskiness of the future.

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[4] See Herbert A. Simon, Administrative Behavior (New York: MacMillan, 1947).

The outcome of this process of decline is that we can expect public employees to become demoralized, depressed, detached and to discount the long-term value of their jobs; that is, to increasingly regard their jobs as temporary assignments, as secondary sources of income, or as a burden to endure while waiting for retirement.[5] Furthermore, there is also evidence to suggest that this vicious cycle of alienation and withdrawal will cause an epidemic of early retirements and higher levels of stress and alienation -- related illnesses like strokes, heart attacks and mental problems, which may, if managers are not careful, produce higher costs for government in the form of pensions, medical insurance premiums, and disability payments that could offset much of what is saved from personnel retrenchment.

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[5] See Nancy K. Schlossberg and Zandy Leibowitz, "Organizational Support Systems as Buffers to Job Loss," Journal of Vocational Behavior, XVII (1980), pp. 204-217.

Clearly, the public has a stake in the way federal agencies manage the balance between the benefits and burdens they offer their employees. Without a healthy equilibrium between these inducements and contributions, we are likely to witness an erosion of the human resource capacity of government which will entail a decline in the skill levels of public employees, a decline in their energy, commitment, and responsiveness, a concomitant decline in their performance, and worst of all, a further decline in the confidence and support of the public for public employees, public programs, and government in general.[6]

Overcentralization

When budget cuts occur, the usual response of most top managers is to seize as much control over expenditures as possible. In organizational terms this translates into increased clearances at higher and higher levels for smaller and smaller expenditures. But this "centralization impulse" is often an overreaction. In the first place, it usually results in an increase in administrative staff and overhead since control requires controllers. In the second place, it means more red tape, more paper work, more justifications, and more delays. While this may make substantial sense in delaying and discouraging cash flow outward, it has another unfortunate effect: it discourages initiative and frustrates middle managers by reducing them to little more than information nodes in a complex budgeting and management reporting system.

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[6] See Peter J. May and Arnold J. Meltsner, "Limited Actions, Distressing Consequences: A Selected View of the California Experience," Public Administration Review (January 1981), pp. 172-179.

A smooth retrenchment and revitalization strategy requires leadership and initiative from the first line employees and middle managers who manage programs and deliver services. What we do when we overcentralize is commit the age-old fallacy of separating responsibility and authority. Furthermore, we risk overloading top management with "administrivia" and likely risk compounding their errors. If it lasts long enough, overcentralization can produce employee resentment, organizational stagnation, and decision-making rigidity, with all their long-term costs for organizational adaptability.

The preceding scenario of organizational atrophy presents a disturbing profile of an organization experiencing retrenchment and decline. But, happily, public managers are not helpless in this situation: there are things that managers can do to combat uncertainty, disinvestment, drift and decisional paralysis. In other words, there is a right way as well as a wrong way to manage retrenchment in government.

Revitalization

What might federal managers do to avoid incurring the long-term costs that arise from human resource erosion and overcentralization? Those of us who study public management have learned much from the experience of organizations that have been through the retrenchment experience. Most importantly, we have learned that nowhere in our society, in the public or the private sector, has retrenchment been carried out without problems.[7] Nevertheless, there are numerous examples of city, state, and federal agencies that have gone through retrenchment with relatively few problems and have been able to revitalize themselves for a future of effective performance.[8]

From these cases we have learned that agencies which adjust best to retrenchment are those that are able to: (1) formulate and stick to a strategic plan with a multi-year time frame of 3 to 5 years; and (2) are able to develop a political and administrative climate conducive to the experimentation with new lower-cost methods for managing programs and delivering services. Without experimentation and innovation in the methods of program management and service delivery, it is impossible to appreciably improve the productivity of our governmental agencies and consequently service quality and quantity are bound to deteriorate as budgets decline.

The key to managing a contracting organization is to break the vicious cycle which tends to lead to disintegration. To do this, Cyert argues, the agency's leaders need to define "an equilibrium position at a smaller size," and plan how to get (and stay) there.[9] To do that, it is necessary to develop a new strategy that defines what the organization will look like at the new equilibrium, what it will be doing, and how it will be doing it. Such a strategy specifies the agency's purposes, plans, programs, size and resources. It fixes the future balance between resources and programs -- how the programs will employ those resources and, in turn, how the resources will be generated by the programs. And, the strategy describes how to reach this new equilibrium position.[10]

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[7] See Lester Thurow, Review of Charles H. Levine (ed.), Managing Fiscal Stress, in Journal of Economic Literature (September 1981), pp. 1105-1106.

[8] See, for example, Charles H. Levine, Irene S. Rubin, and George G. Wolohojiam, The Politics of Retrenchment (Beverly Hills, CA: Sage Publications, 1981).

[9] Richard M. Cyert, "The Management of Universities of Constant or Decreasing Size," Public Administration Review (July / August 1978), pp. 345 and 347.

The two critical preconditions that make this kind of strategic management possible in federal agencies are: (1) that the agency's leadership has a commitment to stopping decline and finding a revitalization strategy; and (2) that if they are so committed, they can predict where the decline in resources will level off. Or, more realistically, they need to decide and predict at what point they can, with the right political strategy, halt the resource decline and obtain their agency's new equilibrium. The assumption is, of course, that what the organization does — what purposes and plans it adopts — will influence how far and how fast resources will drop. Thus, the strategic management plan will involve a series of comparisons between the resources required to operate proposed programs and an assessment of what political and managerial actions will be necessary to fund them.[11]

According to Behn:

> All this cannot be achieved without much debate and disagreement — for retrenchment is not an agreeable undertaking. But once a new strategy is established, it

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[10] See Robert D. Behn, "Leadership for Cutback Management: The Use of Corporate Strategy," Public Administration Review (November / December 1980), pp. 613-620.

[11] *Ibid.*

> provides the criteria by which cuts can be made. It provides the means by which the organization's leaders can develop new measures of performance. It provides the basis for attracting new constituencies and retaining old ones. It provides a framework for creating new organizational arrangement. And, most importantly, the new strategic plan provides the long-term perspective that is necessary to lead the organization through the decline. In addition, an explicit strategic plan can provide a sense that the organization is at least partially controlling its own destiny (if within the constraints that are forcing retrenchment). It can provide a new, if more modest, 'organizational ideal,' so that the members understand the meaning of their personal contribution. It can give the organization's members an understanding of what the organization (and thus they) are 'for,' and hence establish a standard from which calls for sacrifices are made. The new strategic plan will not satisfy those who are committed to purposes that have now been dropped. But it can provide the basis for renewing the dedication of those who are retained and for recruiting new members whose skills better fit the new 'organizational ideal.'[12]

The point to be underscored from this discussion of strategic management is that retrenchment need not necessarily lead to organizational atrophy. Instead, the "worst case" problems of retrenchment can be minimized while a "turnabout strategy" is being formulated and implemented. However, for this to occur in agencies like EDA that are operating under continuing resolutions, the agency's management must be willing to take the lead in guiding their agency, Congress, the White House, and major constituency groups through the difficult and complex process of defining a new and vital future for the agency. Where this does not occur -- where one or more of the key participants in defining the agency's future chooses not to constructively search for a viable future -- or where the agency's leaders abandon their leadership responsibility, any hope for avoiding the long-term costs of organizational atrophy will be lost.

Those who fear for the future of EDA believe correctly that the present pattern of retrenchment threatens to produce an agency that is not only smaller and cheaper, but is also weaker, less vital and as a consequence, less able to accomplish its mission. The irony of this situation is that in its efforts to cut the cost of government to spur economic recovery, the Administration may have lost for the nation a potentially important asset in its struggle to promote economic development and growth.

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[12] Ibid.

ABBREVIATED CURRICULUM VITAE OF CHARLES HOWARD LEVINE

PERSONAL

Born: Hartford, Connecticut, July 13, 1939; married; one child.

PRESENT POSITION

Edwin O. Stene Distinguished Professor of Public Administration, Department of Political Science and School of Business, University of Kansas.

EDUCATION

Ph.D., Indiana University, 1971
M.P.A., Indiana University, 1968
M.B.A., Indiana University, 1966
B.S., University of Connecticut, 1964.

TEACHING EXPERIENCE

1981–Present, Distinguished Professor, University of Kansas.
1977–1981, Associate Professor to Professor, University of Maryland.
1973–1977, Assistant Professor to Associate Professor, Syracuse University.
1971–1973, Lecturer to Assistant Professor, University of Maryland.
1969–1971, Instructor, Michigan State University.
1965–1969, Teaching Associate to Lecturer, Indiana Unversity.

VISITING APPOINTMENTS

1981–1983, Visiting Scholar, The Brookings Institution.
1975–1977, Visiting Research Professor, Cornell University.
1972–1973, Research Associate, National Academy of Public Administration
1970, Ford Foundation Faculty Fellow, Federal Executive Institute.

ADMINISTRATIVE APPOINTMENTS

1979–1981, Acting Director, Bureau of Governmental Research, University of Maryland.
1979–1980, Acting Director, Institute for Urban Studies, University of Maryland.
1978–1979, Associate Director, Institute for Urban Studies, University of Maryland
1977–1978, Director of Graduate Studies, Institute for Urban Studies, University of Maryland.
1973–1975, Assistant Director, Maxwell Mid-career Program, Syracuse University.
1971, Faculty Intern, Office of the Chancellor, University of Maryland.
1967, Management Intern, U.S. Department of Health, Education, and Welfare.
1965, Management Intern, United Technologies Corporation.
1964, Market Research Analyst, Knowland and Company.
1961, Library Research Assistant, Time Incorporated.

AWARDS

William E. Mosher Award, American Society for Public Administration, 1979.
Pi Sigma Alpha, 1973.
Faculty Internship, Office of the Chancellor, University of Maryland, College Park, 1971.
Ford Foundation Faculty Fellowship, Federal Executive Institute, 1970.
Indiana University Urban Affairs Fellowship and Doctoral Student Dissertation Grant-in-Aid, 1968.
Summer Administrative Internship, Department of Health, Education and Welfare, 1967.
Assistantships, Indiana University, Graduate School of Business and Department of Political Science, 1964–1968.
Honors, University of Connecticut, 1961–1963.

BOOKS

1. The Politics of Retrenchment: How Local Governments Manage Fiscal Stress (Beverly Hills, CA: Sage Publications, 1981; with Irene S. Rubin and George G. Wolohojian).

2. Fiscal Stress and Public Policy (eds.) (Beverly Hills, CA: Sage Publications, 1981; with Irene S. Rubin).
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4. Urban Politics: Past, Present, and Future, (ed.) (New York: Longman, 1980; with Harlan Hahn).
5. Managing Human Resources: A Challenge to Urban Government (ed.), (Beverly Hills, CA: Sage Publications, 1977).
6. Racial Conflict and the American Mayor: Power, Polarization, and Performance (Lexington, MA: D.C. Health/Lexington, 1974).

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1982

1. "Managing the End: Death and Dying in Public Organizations," Public Management (March 1982) 64, pp. 18–20; (with Irene S. Rubin).
2. "Retrenchment and Human Resource Management: Combatting the Discount Effects of Uncertainty," in Steven W. Hays and Richard C. Kearney (eds.), Public Personnel Administration: Problems and Prospects (Englewood Cliffs, NJ: Prentice-Hall, 1982; with George G. Wolohojian), pp. 175–188.
3. Managing Organizational Retrenchment: Preconditions, Deficiencies and Adaptations in the Public Sector," Administration and Society (May 1982), pp. 101–131; (with Irene S. Rubin and George G. Wolohojian).

1981

1. "Resource Scarcity and the Reform Model: The Management of Retrenchment in Cincinnati and Oakland, " Public Administration Review (November/December, 1981), pp. 619–628 (with Irene S. Rubin and George G. Wolohojian).
2. "State Targeting on Urban Fiscal Problems: A View from Below," The Urban Interest (Fall 1981) pp. 73-82; (with Irene S. Rubin).
3. "The Hidden Hazards of Retrenchment," The Bureaucrat (Fall, 1981), pp. 34–36.
4. "The Centralizing Effects of Austerity on the Intergovernmental System," Political Science Quarterly (Spring, 1981) pp. 67–68; (with Paul L. Posner).
5. "Managing Public Sector Retrenchment: Headaches and Heartbreaks," in Gunther G. Kress (ed.), Managing Fiscal Limitations (Davis, CA: Institute of Governmental Affairs, University of California, Davis, 1980), pp. 13–22.
6. "The Hazards of Going It Alone," in Charles B. Tyer and Marcia W. Taylor (eds.), Perspectives on the Limitation of Taxing and Spending in the Public Sector in the United States (Columbia, SC: Bureau of Governmental Research and Service, University of South Carolina, 1981) pp. 219–258 (with Richard D. Schmitt.

Mr. LEVITAS. Thank you very much, Dr. Levine. We will have some questions for both of you at the same time.

Dr. Rubin.

Ms. RUBIN. My name is Irene Rubin. I am a professor at Northern Illinois University in De Kalb, Ill.

I would like to thank the committee for inviting me to testify concerning the effects of threatened and actual cutbacks on the EDA. I am honored to have been asked, and grateful for the opportunity to speak before this committee in particular.

As some of you may know, I am completing a study of the effect of President Reagan's cutbacks on Federal agencies. One of the agencies in my study was the Urban Mass Transportation Administration, and Congressman Anderson's office was helpful to me in providing me information about that agency. This testimony provides me the opportunity to acknowledge that assistance, and hopefully, return the favor, if indirectly.

The subject of my research is the impact of budget and personnel cuts on the quality of management in Federal agencies. I did not study the EDA as one of my cases, but I feel that many of the impacts I observed will be applicable to the EDA. I did not study the effect of budget cuts on programs, or on services delivered; my study reflects then only on a portion of the concerns of this committee.

At the risk of stealing my own thunder, I would like to give you my conclusions first, and then explain why I think the cutbacks have had the impact that they have had on the agencies.

I observed a deterioration in the quality of management in every agency I studied as a result of threatened and actual cutback. I measured the quality of management in a variety of ways.

I looked at productivity; I looked at morale; I looked at the quality and timeliness of decisionmaking; I looked at the cooperative or hostile relations between management and labor.

I examined the knowledgability and experience of staff. I looked at the ability of the agency to supervise operations in the field, and the ability of the agency to see that money was spent in the manner intended by Congress. Not every agency got worse on every indicator, but the overall pattern was toward deterioration of quality.

There are basically two groups of reasons why the quality of management deteriorated. The first is that there were contradictions in the President's program that made it impossible to accomplish cutback and managerial improvement simultaneously.

The second is that many agencies were caught between the President, who wanted to terminate or cut back their programs, and the Congress, which wanted to preserve their programs. Good management assumes progress toward an agreed-on set of goals, a condition lacking in the case of these agencies.

I just want to briefly sketch out what some of these arguments would be. If you are interested in details, you can read the testimony.

I have made a copy of the manuscript of the book available to the committee staff.

Let me suggest some of the contradictions inherent in the President's program; first, reductions in regulations, which was part of what he wanted to do, is contradictory to improvement of management, if you want to control waste, fraud, and abuse, which have become one word on Capitol Hill these days.

Second, if you reduce personnel, you cannot maintain Federal oversight. And there is an increased likelihood that money will be improperly spent.

With respect to agencies that are caught between the President and Congress, I found the deterioration in management was most severe in those agencies. Those agencies were often faced with contradictory goals.

They were asked to carry out congressionally mandated programs and terminate their agencies simultaneously. They were often immobilized in the face of uncertainty, continuing to absorb public resources, but unable to deliver services at prior levels.

Thank you.

[The full statement of Professor Rubin follows:]

STATEMENT OF IRENE RUBIN, PUBLIC AFFAIRS DIVISION, NORTHERN ILLINOIS UNIVERSITY

My name is Irene Rubin, I am a professor at Northern Illinois University in DeKalb, Illinois.

I would like to thank the committee for inviting me to testify concerning the effects of threatened and actual cutbacks on the EDA. I am honored to have been asked, and grateful for the opportunity to speak before this committee in particular. As some of you may know, I am completing a study of the effect of President Reagan's cutback program on federal agencies. One of the agencies in the study was the UMTA, and Congressman Anderson's office was helpful to me in providing me information about that agency. This testimony provides me the opportunity to acknowledge that assistance, and hopefully, return the favor, if indirectly.

The subject of my research is the impact of budget and personnel cuts on the quality of management in federal agencies. I did not study the EDA as one of my cases, but I feel that many of the impacts I observed will be applicable to the EDA. I did not study the impact of budget cuts on programs, or on services delivered; my study reflects then only on a portion of the concerns of this committee.

At the risk of stealing my own thunder, I would like to give you my conclusions first, and then explain why I think the cutbacks have had the impact that they have had.

CONCLUSION

I observed a deterioration in the quality of management in every agency I studied as a result of threatened and actual cutback. I measured the quality of management in a variety of ways. I looked at productivity; I looked at morale; I looked at the quality and timeliness of decision making; I looked at the cooperative or hostile relations between management and labor. I examined the knowledgability and experience of staff. I looked at the ability of the agency to supervise operations in the field, and the ability of the agency to see that money was spent in the manner intended by Congress. Not every agency got worse on every indicator, but the overall pattern was toward deterioration of quality.

Why did the quality of management deteriorate?

There are basically two groups of reasons why the quality of management deteriorated. The first is that there were contradictions in the President's program that made it impossible to accomplish cutback and managerial improvement simultaneously. The second is that many agencies were caught between the President, who wanted to terminate or cutback their programs, and the Congress, which wanted to preserve their programs. Good management assumes progress toward an agreed on set of goals, a condition lacking in the case of these agencies.

Contradictions in the President's Program. The President sought to accomplish several goals simultaneously. He wanted to cut budgets, reduce the level of non military personnel, deregulate, decentralize, and improve the quality of management. He particularly emphasized the control of waste, fraud and abuse. Yet these goals cannot be achieved simultaneously, and the one that was often ignored as these goals were implemented was the improvement of management.

For example, cutting back regulation and enforcement of regulations is not compatible with controlling waste, fraud and abuse. If you are going to get government off the backs of the people, by limiting the amount of information that agencies can collect, you also limit the capacity of agencies to monitor projects to find out if money was properly spent. My impression is that some agencies do not even have the capacity to find out how money was spent, let alone whether a project was successful. The capacity to evaluate, and recommend changes based on past failure, has thus been curtailed. This capacity has further been reduced by budget cuts that severely limited the amount of travel officials could take. People sit in Washington and guess at what is going on in the field.

The capacity to detect fraud, or misuse of funds was further limited by staffing reductions. Agencies that had been closely examining grant applications for eligibility and soundness often found that they did not have the staff to do such examinations. If abuse increased, they would have no way of knowing about it.

The President's proposals to decentralize programs also worked to the detriment of improved management. Some agencies took decentralization as an explicit goal, and refused to state national level goals for programs. Administrators argue that the goals should be determined by state and local governments, not by the federal government. As a result, there were no standards by which the agencies' effectiveness could be judged. No one could tell if the program was well or poorly conceived, how well it was working, or how well it was managed.

Finally, the President's proposals to terminate a number of programs, were inherently antithetical to improvement management. One can cut back a program, and knowing that it will continue to provide services, be concerned about productivity and the ability to produce at former levels with reduced resources. But if the goal is not to provide the service any more, increased productivity is not a concern. You do not care about the quality of management in an agency you are about to terminate. In fact, you may purposely make the quality of management worse, in an effort to hasten the termination. If the agency is immediately terminated, the effects of this strategy are minimal; but if the threat of termination hangs over the agency for several budget years, the effects on the quality of management are devastating.

Getting Caught Between Congress and the President. The second set of reasons for deteriorated quality of management had to do with getting caught between Congress and the President. Not all agencies which were cut back were caught in this manner. Programs which were cut by both the President and the Congress together managed the cuts much better with many fewer side effects. But when the President wanted to cut and Congress opposed the cuts, the agencies were often caught in the middle.

The first thing that happened in that situation was that the President was forced to rely on the tools that were at his disposal, that did not depend on Congress, or depend only marginally on Congress. Thus the administration made extensive use of personnel ceilings, often independent of congressionally determined budget levels. The possibility existed for some agencies that the personnel levels would be much lower than the size of the budget implied. Personnel and budget began to run on two different tracks, especially when the President announced targets for personnel reduction that were not budget driven.

The President also relied heavily on the rif procedure, often when it seemed more efficient and less disruptive to use attrition combined with other sources of savings. The rifs were highly publicized, and gave the public the impression that the President was doing something about inflated bureaucracy. Attrition is not easy to take credit for. The rif procedure caused much displacement, absorbed enormous amounts of staff time, and reduced morale and productivity, for many months. Many of the young and able, threatened by the possibility of rif, left the agency. Reportedly, many staff questioned the way in which rifs were run, and felt that rifs would be used against them if they disagreed with the administration. I had a general sense that many administrators felt that they had been put on the shelf, to be ignored until they could find other jobs. Not only did the agencies lose resources this way, they lost the possibility of hearing contrary opinions.

Along with rifs, the administration relied heavily on reorganizations. These reorganizations caused additional chaos, often just at the time the agencies were settling down after rifs. The impact was usually to centralize control at the top levels of administration; the political levels were often bolstered by additional staff, while the upper level career officials were the ones targeted for cuts. The split between political levels and career officials was thus very sharp, with reported loss of communication between the levels. The centralization may have been needed to offset some of the extremes of decentralization of the Carter administration, but the loss of communication between political and career officials does not bode well for the quality of decision making.

The impact on morale of administration attempts to single handedly terminate or destroy agencies, without congressional concurrence, was enormous. Many career officials felt that they had been made the scapegoats for the administration, that they were perceived as lazy. Lack of rewards for the SES and increased rifs, presumably to be attached to performance, gave the impression of an increasingly punishment centered administration. Officials felt that they could not fight for their agencies, because the President opposed their programs, and they could not protect their staff, because of rifs. Their sense of self worth, derived in part from association with programs designed to do good, suffered. The rewards of being a bureaucrat were markedly reduced. The effect on future recruitment to the bureaucracy is likely to be that government will not attract the best available.

The battle between Congress and the President resulted in continuing uncertainty about the budget for many agencies. Continuing resolutions, vetoes, impoundments and deobligations provided several different levels of funding throughout the year, in a somewhat unpredictable manner. Depending on when the agency normally disbursed funds, the effect on the agency's ability to carry on varied. The perception on the part of the public that the funding was not available often deterred applicants from asking for funds. With fewer applications to choose from one would expect a drop in the quality of projects funded.

The agencies that suffered most were those that were to be zeroed out by the administration, but were not zeroed out by Congress. These agencies were often faced with contradictory goals: they were asked to carry out congressionally mandated programs and terminate their agencies simultaneously. These agencies were often immobilized in the face of uncertainty, continuing to absorb public resources, but unable to deliver services at prior levels.

APPLICABILITY TO EDA

It is my impression that many of the factors contributing to worse management at other federal agencies were also operating at the EDA. It was caught between the President's determination to terminate the program and Congress' determination to save it. The administration persisted in treating the agency as if it were to be terminated, so that management improvements would not be seriously considered. The agency would be caught between conflicting goals. And it would probably be affected by rifs and reorganizations that created chaos, detracted from traditional tasks and oversight, and made bureaucrats fearful of trying to protect the program. The committee is in a better position than I to judge which of the possible consequences of the President's program actually occurred.

ABBREVIATED CURRICULUM VITAE

Name: Irene Rubin; Rank: Assistant Professor; Department: Political Science; Date of Birth: 5/3/45.

EDUCATION

Degrees, date, institution, and location:

Ph.D., Sociology, 1977, University of Chicago, Chicago, Ill.

M.A., East Asia, 1969, Harvard, Cambridge, Mass.

B.A. East Asia, 1967, Barnard, New York, New York.

Research Interests: Organization Theory, Public Administration, Budgeting. My research emphasizes the effects of changing resources levels on organizational behavior, particularly on budgeting and personnel decisions. Prior work has been on universities and cities in financial trouble: current work is on retrenchment in federal bureaucracies.

EMPLOYMENT—ACADEMIC

1981- Northern Illinois University, DeKalb, Illinois, Assistant Professor, Division of Public Affairs, Department of Political Science and member of the graduate faculty.

1981- Concurrently with the appointment to the Political Science Department, Research Associate in the Center for Governmental Studies, Northern Illinois University.

1979-1981: University of Maryland, Assistant Professor, institute for Urban Studies.

1980-1981: Concurrent with Urban Studies, Associate faculty of the Sociology Department, University of Maryland, and member of the graduate faculty, University of Maryland.

1976-1979: Director, Urban Career Studies, Lewis University, Romeoville, Illinois, and Assistant Professor of Sociology. Work included grant administration and grant writing, program coordination, liaison with area cities, and internship supervision.

PROFESSIONAL MEMBERSHIPS

Midwest Political Science. The Southwest Social Science Association, American Society for Public Administration, Association for Public Policy and Management.

PUBLICATIONS

Books

Shrinking The Federal Government, in progress, Longman Publishers, anticipated date of publication, June 1984.

Community Organization and Development, with Herbert Rubin, in progress, Charles E. Merrill publishers, forthcoming, 1985.

Running in the Red: The Political Dynamics of Urban Fiscal Stress, S.U.N.Y. Press, 1982, part of the S.U.N.Y. Series on Urban Public Policy, edited by Richard Rich and Mark Schneider.

Fiscal Stress and Politics of Retrenchment, Sage Publications, Fall, 1981, Co-authored with Charles H. Levine and George Wolohojian.

Fiscal Stress and Public Policy, Sage Yearbooks in Politics and Public Policy Volume 9, Beverly Hills, Sage Publications, 1980, Co-Edited with Charles H. Levine.

Articles

"Marasmus or Recovery: The Effects of Cutbacks in Federal Agencies," forthcoming, in Social Science Quarterly, March 1984.

"Evaluation for Cutback Management in Small Cities: Can the Problems be Solved?" forthcoming, in Policy Studies Journal December 1983. With H. Rubin, D. Dobson, and J. Grush.

"Combining Political and Managerial Advice on Cutting Back Budgets," Managing Local Goverment, 1983.

"Managing Organizational Retrenchment: Preconditions, Deficiencies and Adaptions in the Public Sector," Administration and Society 14 (May 1982) 101-136, co-authored with Charles H. Levine and George Wolohojian.

"Resource Scarcity and the Reform Model: The Management of Retrenchment in Cincinnati and Oakland," Public Administration Review, December 1981. Co-authored with Charles H. Levin and George Wolohojian.

"State Targeting on Urban Fiscal Problems: A View from Below." The Urban Interest volume 3, special issue edited by Vincent Marando an Ulf Zimmerman, December 1981, 73-82. Co-authored with Charles Levine.

"Budgetary Processes as an Intervening Variable between Urban Politics and Fiscal Stress," Proceedings of the 1979 Conference on Politics of the Small City, Macomb, Ill, 1981.

"Response to Fiscal Stress in Four Localities: A Model and Plan for Research." In Harvey K. Newman, ed, Selected Papers from the 1980 Annual Meeting of the Council of University Institutes for Urban Affairs, Atlanta, Georgia, 1980. With Charles Levin and George Wolohojian.

AWARDS AND CONTRACTS

Bureau of Health Planning, Public Health Service, summer of 1981, to explore adaptions of local health planning agencies to reductions in federal funding, and to write technical assistance papers for local agencies on how to adapt. ($5,000)

City of Dekalb, Illinos, Spring of 1982, to compare the productivity of DeKalb's service delivery with that of four other university cities in Illinois, and to prepare for Dekalb a series of productivity measures with which to monitor changes as they cut back their budget. ($12,000)

Northern Illinois Summer Research Grant, to explore the response of federal agencies to cutback, develop access to agencies and begin a grant proposal to support the project. (1 month's salary)

Mr. LEVITAS. Thank you very much, Dr. Levine and Dr. Rubin. You obviously are a very important resource to us.

Let me ask you this question, both of you. I think it is implicit in your testimony, but let me ask the question anyway.

Is a decline of quality in service and management an inevitable consequence of retrenchment of an agency, whether in the public or private sector?

Mr. LEVINE. It will likely be in the short run, as the adjustment to smaller personnel levels, less maintenance, fewer programs, a loss of agency prestige, and all the rest of the things that go with less money occurs. It is possible, however, as we have seen in a few cities, to turn that around, be smaller, retarget and refocus your resources, and rebuild morale.

Several American cities have been through that, and they seem to have come out the back end in pretty good shape.

Ms. RUBIN. I would like to add, I observed a number of agencies. Some of them were nowhere near so badly affected despite the effect of huge cuts in personnel and money. Where Congress and the President agreed that a cut should take place, and it was clear to agency personnel, there was much better morale, a much clearer sense of we will do this, get it done, and get on with our mission.

When the administration persisted in trying to zero out agencies and was unable to do it year after year, the maximum damage to the agencies occurred.

Mr. LEVITAS. You anticipate a question I was going to ask you. Let me go ahead and get to that question. Have you had an opportunity to examine or study an agency where there was a concensus between Congress and the administration that it was a good idea for all concerned?

Let me give you one that if you have not studied, you ought to before the lights go out, and that is the Civil Aeronautics Board.

Here is an agency which Congress and the administration several years ago reached concensus that it would sunset. And the sunset was phased in over a period of years, and as each date approached, certain regulatory or other responsibilities of the agency were terminated, which meant, aside from the fact that that responsibility ended, there were five offices over there which now became empty because those people had nothing to do. Have either of you had an opportunity to take a look at that particular agency or that situation, and if you have not looked at that agency, I think it would be a good study for someone to do.

Ms. RUBIN. I have not done that particular agency, but I have done an agency in which that was the case. It seemed to me there was an agreement between the President and Congress on cutting back the ETA, the Employment Training Administration.

That was carried out with much less pain and seemingly with much less damage to the agency than some of the other agencies I examined.

Mr. LEVITAS. Dr. Levine.

Mr. LEVINE. I looked at two agencies like that. NASA went through that period of going from a $6 billion budget down to a $3 billion budget over about 5 years, and there was concensus about what that new level should be. I think NASA has come out the back side in pretty good shape.

On the other hand, I have also had casual observation of the Community Services Administration, Agency, which continues to exist. I know people that are doing the same things they did at OEO.

Mr. LEVITAS. You are anticipating my next question. I was going to ask you, did you study Kevin Phillips' efforts?

Mr. LEVINE. Yes, and I studied Dwight Ink's and other people along the way. There are people at that remnant agency doing exactly what they did at OEO 15 years ago. Their morale is not good. They continue to give service. They believe in the program. But they are a beleaguered group, and I am sure it has taken its toll over the years.

Mr. LEVITAS. Again, have either of you looked at the contemporary VISTA. What is happening at the present time?

Ms. RUBIN. I have not looked at it.

Mr. LEVITAS. Again, you might find it instructive to go back and look at the debate in Congress earlier this year. The House passed a bill after rather extensive debate where there were mandatory floors of funding required, so that as I recall, just to give you a generality, in the case of VISTA, in 1981 it had a budget of about $34 million. It was cut back to somewhere in the neighborhood of $12 million.

This year Congress, or the House in any event, said that not less than $25 million of the amount in the bill shall be expended on VISTA. The administration wanted to zero out VISTA, but Congress wanted to keep VISTA in existence. And yet it was part of a larger program where, without some floor, funds could be taken from VISTA and put into some other voluntary organization within that general ambit.

And the debate, I think, would be instructive. My last question is to you, Dr. Levine, because you mentioned it in two places, as I recall, in your testimony.

It is the problem of government by continuing resolution, which I think most people would agree is a lousy way to govern. My question is this. You have heard of the administration's desire to terminate EDA and the inability of the Congress to do anything more than pass continuing resolutions with respect to funding. What would you predict under those circumstances as the future of EDA?

Mr. LEVINE. That it will go on and on and on until somebody gets weary of this tussle. Now, what I find particularly interesting in talking to some people in the last couple of days about other agencies in Government that are existing under similar circumstances is they are beginning to take the initiative in working out a plan, selling it to OMB, the White House and appropriate committees. In other words, the agency is now taking the initiative in trying to get some stability and cut away the uncertainty. And I think if, in fact, EDA is going to have a new Administrator that ought to be the first thing asked of that new Administrator, are you willing to take the initiative to try to make this whole again?

Mr. LEVITAS. Thank you.

Mr. MOLINARI. I am intrigued by your answer because as we look to the very near future, with the assumed expected departure of Mr. Campbell, it would seem to me that the person who would take Mr. Campbell's place is probably going to be somebody who has read the signal from the Administration that they want EDA to be phased out. If in fact they didn't fit that discription, I doubt very much whether that person would receive the appointment.

So from the political world that we live in, I don't see that as a possibility.

Mr. LEVINE. Unless the political world is in fact changing, and the Administration realizes that it is wasting its own time, exhausting everyone, producing frustration in places where it would need political support in the upcoming election and that this is a silly way to proceed by any standard, political or managerial.

Mr. MOLINARI. You are back to the question of the continuing resolution. I don't see that as a very serious problem. It is a problem, but not a very serious problem, because very often there is an impasse that can be settled only with time, so we use the device of continuing resolution. It is not the best but it doesn't signal any loss of positions necessarily to those within an agency.

We are dealing with something different here. The question of retrenchment, which is used liberally throughout your written testimony—what do you mean by retrenchment?

Mr. **Levine**. Growing smaller. Termination is disappearing. Retrenchment means growing smaller.

Mr. **Molinari**. It would not include termination, okay. That would be my interpretation. We are dealing here with not retrenchment for EDA but a possible or at least a proposed termination, which doesn't sit well with those that are up here, but could you briefly describe for us the difference that you might encounter with the personnel within an agency that is scheduled for extinction as opposed to one that is facing retrenchment?

Mr. **Levine**. If people don't believe they are going to have jobs-nothing is going to work. In the very short run you might elicit their attention and get their cooperation to close the doors, but if it drags on and on you will see a period of detachment, a lowering of effort, the best people leaving, people working on their second job, a host of behavior manifestations of people discounting the long-term value of their jobs just like a banker discounts a loan.

A quick termination, quick and sudden, will do the job, but there is no consensus that that is the right way to proceed. So I think the reasonable position is to assume we are going to have a continuing reduction to some reasonable level.

What I find particularly curious about all this is that people won't admit that there is a standoff. I suppose that it is good political rhetoric to talk about zeroing out, but if you can't do it after three shots and you know you are aggravating people, enough already.

Ms. **Rubin**. May I address that? I am interested in the difference between the impacts of extinction and retrenchment on management. It has a very different impact. If the administration has decided to zero out an agency, there is no motivation to try to improve management or productivity. If you are going to retrench, almost the definition of retrenchment is "I am going to try to maintain service levels and get more productivity out of my current dollars and resources."

So the minute you say I am trying to extinguish the agency and the program, you are saying I don't care how it is managed. If anything, I would like to make it worse managed to hasten the termination.

Mr. **Molinari**. That is my perception. I have a last question.

Dr. Levine, you mentioned the question of leadership responsibility. And I am just wondering how that fits the individual who will be asked to take Mr. Campbell's place if that eventuality occurs. He or she is expected to take over the agency and at the same time knows he is working for an administration that wants to phase it out completely.

What is the leadership responsibility of that person?

Mr. **Levine**. It is a difficult problem to serve two masters. Here is what I propose: that three activities go on at the same time. One activity is protecting the capacity of the organization to deliver the programs that Congress mandates and funds. That is buffering out turbulence that comes from the continuing resolutions and the talk of zeroing out. The second thing one would do would be to develop a task force to continue planning for phase out if the time arrives when a consensus for that occurs. It doesn't have to be a large task force. And third, a capacity to define a future. That would be some combination of what you are already doing and new opportunities as well as things you want to carve away. Those three activities should be going on at the same time, relatively buffered and sheltered from one another, and the two strategic activities, the close-out and the future plan, should be reasonably small in comparison to the main orientation of the agency.

I would push that activity down two or three levels in the organization so we have first line supervisors involved in trying to shape the future of the organization. I think it is possible to structure an organization in such a way to plan for different kinds of futures and different kinds of contingencies and still carry on business.

Mr. MOLINARI. Carlos Campbell has left and Charles Levine is in his position. Someone asks, "Dr. Levine, do you think I should stick around this place or for the sake of my family get another job?" How do you answer the question?

Mr. LEVINE. I can't guarantee about the future, but I can in the short run front load as many incentives as I can in terms of promotions, training opportunities, assignments to interesting task forces, and other kinds of things that are going to improve my marketability down the road. I can front load incentives in such a way as to make this an attractive place for you to stay around until it really looks like we are going out of business.

Mr. MOLINARI. One point that you made I think is something that the administration should perhaps consider. In order to maintain stability and to be able to have the job performance that Congress and the administration, itself, expect of EDA, perhaps if those individuals who would not be retained under a closing of the agency were to be guaranteed that they would be picked up in a similar position in some other agency at a future point in time, their job performance would not suffer, at least not to the same degree as when facing a possible complete termination. That raises an interesting question.

Thank you very much. I have no further questions, Mr. Chairman.

Mr. LEVITAS. Mr. Oberstar.

Mr. OBERSTAR. Thank you very much, Mr. Chairman.

I certainly hope the administration will pick up on the admonishment of the gentleman from New York. Those are words of wisdom with which I fully concur. The matter of job performance is one that I think goes to the heart of the problem in EDA over the past 2 years. I feel there has been a lack of interest on the part of the Administrator, very frankly, in job performance. He has clearly let the agency people know in such a way that departures were greeted with something short of rejoicing, but at least with approval. But that is really unfortunate, because this agency has been characterized from its outset, and even from its predecessor agency, the Area Redevelopment Administration, by a high level of esprit de corps, a staff of highly motivated professional people who took great pride in a sense of achievement, delivering services to distressed areas, a sense of plowing new ground, of achieving something concrete and specific in the lives of their fellow citizens. They were willing to spend a considerable amount of time beyond their normal working hours and into weekends. They devoted a great deal of time meeting with the leaders of communities, with the people in the communities whom they were designated to help, and for them, for that agency, this management style as it has been characterized in these past 3 years has been a trauma. These very dedicated, highly motivated professional staff people who have had almost a family relationship with that agency now felt themselves alienated, pushed out the door, unwanted.

Many of them were willing to stick with it because they believe in the mission of EDA. They were willing to put up with some of the personal abuse and with much of the program disappointment because they believe in the mission and they wanted it somehow to succeed and felt that perhaps some way it would succeed. Well, it has survived, but you know, I think the question is has the policy on EDA changed? And if the policy has not changed, the policy is still to terminate the agency or to terminate its function of assisting distressed areas, then management style may be important. The successor to the incumbent could engage in such activities that would make personnel feel comfortable, as you suggested very appropriately, front load things for personnel, make it as comfortable for them as you can while the agency is still in existence, and say we are going to give you every opportunity to enhance your professional status, but certainly not go out of one's way to make working conditions miserable for employees.

That is what I consider management style, and I think another person with a more humane concern for the individual might so conduct himself or herself, whoever that Administrator might be. But isn't there an institutional dilemma? If the administrator of an agency which is targeted for extinction or targeted for retrenchment does the best professional job possible of conducting the affairs of that agency, in accordance with the law and best management practices, and makes that agency look good, then won't its clientele and its advocates in the Congress work harder to keep it alive? Thus, good management of such an agency becomes a self-defeating policy or practice, because then the goal of the administration or its policy to terminate or retrench that agency will be frustrated by the process of good management?

Mr. LEVINE. In a word, yes.

Ms. RUBIN. I have already argued that a few moments ago.

Mr. OBERSTAR. So in a sense, Mr. Campbell was to the economy what Jim Watt was to the environment, carrying out a policy that was at odds with the policy of its clientele?

Mr. LEVINE. Yes; I am not as familiar with EDA and Interior as your statement might suggest, but let me say that I agree.

Ms. RUBIN. I will decline comment on that and defer to your greater political knowledge.

Mr. OBERSTAR. You have certainly given us a very interesting insight in your comment that where a bottom line is evident, that is you are going to be cut back to *x* personnel level, people can tolerate that because there is a certainty. It is where the uncertainty exists that morale problems are created and then performance problems result?

Mr. LEVINE. Even with uncertainty there are many things we know an agency can do to buffer the uncertainty on their employees. They can get into job outplacement shops, get into the training of employees for other jobs. They can really work very hard at finding other positions in Government for their people. They can do some counseling, they can do some careful retirement advising. There is a whole host of things that you can do to cut away the uncertainty on the individual.

If there is no sensitivity in leadership to those kinds of concerns, the individual costs, then everything compounds, all the badness compounds.

Mr. OBERSTAR. Yes; I think we see that kind of problem in private industry as well, where, for example, in the steel industry, where there is uncertainty about the level at which the steel industry is going to bottom out, and employees have no certainty about where they are going to wind up, because truthfully management has no idea where they are going to wind up.

There are the same kinds of morale, performance, productivity problems among people and a sense of hopelessness pervades the workplace.

Ms. RUBIN. I would like to comment on some of the particular buffering techniques that Dr. Levine referred to and note that very, very little money and very little effort was really spent in outplacement. A number of agencies that were engaged in RIF's appeared to be doing some placement, but very few dollars were spent on it and almost no placement resulted from those efforts. So that is certainly an area in which some improvement can be made.

Also if you think about the impacts of training inside you shift someone to another job so that he has a greater supervisory capacity now, he is now eligible for something else, or rotate him into the budget office so he has new skills, or to the computer officer so that he is marketable in other areas. Those things are resources that are available to an administrator without extra dollars.

It is interesting to note, however, that in terms of training that was one of the major things that virtually got zeroed out in a lot of budgets over the past years as agencies tried to cope with dollar cutbacks, so that the thing they needed to cope with RIF's internally and the thing that would have helped them to buffer the impacts of cuts wasn't there.

Mr. OBERSTAR. Yes, very good. You have done some very, very helpful thinking about the entire process and we are grateful for your contribution. Thank you.

Mr. LEVITAS. Thank you.

Mr. Clinger.

Mr. CLINGER. Thank you very much, Mr. Chairman.

Dr. Rubin, as you were testifying I was reminded that a large percent of your comments were reflective of my experience when I first came to EDA back in 1975. The then administration was not really terribly enthusiastic about EDA. They viewed it as an agency to be retrenched, to be cut back but not eliminated, and my resulting experience there was one of extremely high morale on the part of the personnel who served with the agency at that time. They recognized that the agency was not going to be as grandiose and as ambitious as it had been in the previous administration, but that it had a role to play, although with reduced funds and somewhat reduced personnel. My recollection is that people were very enthusiastic about what they were doing; they were really trying to do a job with reduced funds and with some fewer personnel, but there was enthusiasm about it. The other thing was that the leadership, the management of the agency at that time, wasn't attempting to dismantle; they were really attempting to do the job with the reduced resources available to them, which I think is a very important point.

And then I was reminded of one of the first times I heard Mr. Stockman speak to Republican Members of Congress. He was talking in terms of the need to retrench, the need to reduce the size of Government, the need to cut back—and I think nobody really objects to that—but then he went on to say that the decision had been made that in doing that rather than attempt to cut across the board, that is to reduce all areas of Government proportionately, the decision had been made to single out certain program activities, certain agencies, certain bureaus, and eliminate them entirely. I think we are beginning to reap that harvest now, because what has happened is that where there has been an attempt to totally eliminate, those efforts have been resisted pretty vigorously on the Hill, whereas if perhaps there had been an attempt made just to retrench across the board it might have been a far more successful effort.

Dr. Levine, of course you started from the assumption that management contemplated some reduced level of activity in your suggestions of what could be done, and of course, here we have a situation where management anticipates a total elimination, so that——

Mr. **Levine**. Well, there are many different kinds of anticipation.

Mr. **Clinger**. Right.

Mr. **Levine**. I happen to be one of the people that believes that targeted cuts are more effective than across-the-board cuts when you face a need to reduce deficits. I think that it is reasonable to assume that as we move into a deficit closing period we hope that the administration is going to need yet a new strategy for dealing with Government cutbacks, but I have not heard one articulated in the last 6 or 7 months that has any political feasibility. I think that the strategy of 3 years ago has run its course and it is time to push a little bit and find out how are we going to reduce this deficit and now agencies like EDA that have been hanging out there are going to be stabilized.

Mr. **Clinger**. Well, I would hope that your impression or your hope might prevail, which is that the administration would recognize the realities of the situation and begin to work with those realities. As I see them there are two. First, the reality that EDA is going to continue to exist. I think after 3 years of experience where there has been an attempt made to zero out the agency and that effort has been unsuccessful, it is like hitting the mule in the nose with a 2 by 4. Sooner or later you have got to make an impression. I would hope that that would be one reality that would be recognized, that there is going to be a continuation of EDA.

Then the question becomes, "What do you do with it?" The second reality is that there are going to be reduced resources available to that agency and to all agencies. If in fact the administration accepts both of those realities, then I guess the question is, What would we do if we had the agency or the administration accepting the fact that EDA is going to be there with less resources; what would you recommend?

One of the things that I would like to recommend is the acceptance of H.R. 10, which seems to me to be the sort of scenario you were talking about; in other words, that you reevaluate what goals you want to achieve at the retrenched level, clearly establish what those goals are and what resources are going to be needed.

It seems to me that H.R. 10 provides that kind of a game plan. It is a reduced level. We eliminate the business loan program, we concentrate on public works with a much more simplified process. We spin off the business loan activity basically into the communities and so forth. Is that the kind of thing that you think should be done if indeed the administration accepts the two realities I have spoken of?

Mr. LEVINE. And I like what Mr. Page said earlier about the way the regional councils are trying to leverage public and private sector activity, voluntary effort and State/local dollars as well as the Federal dollars. I look for some new combination of activity, with some kind of innovativeness and experimentation around the country to come up with the right blend that then can be duplicated and legislated as the way to go for the agency in the future.

An experimental period might be in order.

Mr. CLINGER. The point that Mr. Molinari makes is extremely critical, for starting from today, if, indeed, there is going to be a new assistant secretary, that assistant secretary must be one who accepts those two realities. We are going to have a reduction in the scope of the program. How are we going to do that effectively? That is needed, rather than to have someone who doesn't really believe in the program, which is Mr. Campbell's situation. He doesn't believe that the Federal Government has any role to play in economic development.

Given that bias, it was probably inevitable that he would have great difficulty administering a program which he had no faith in.

Ms. RUBIN. It seems we are at a phase of trying to cope with agencies that are cut back and it is time to launch a productivity program. That is not just jargon.

It has been used as jargon for some time, but the GAO has done a study indicating that over the past 2 years there has been virtually no effort to increase productivity. I think a lot can be done on that dimension.

One of the problems occurring over the past few years is with the decentralization that has occurred. Administrators are coming to Congress and saying we don't have goals. We are not the ones to set the goals. We decentralized so that the States and the regions and the local governments could set goals. "That means you have no way of evaluating the performance of the Federal agencies.

They are not going anywhere, all they are doing is giving stuff away. I think part of the next phase is going to be trying to force some of the agencies that have been involved in decentralization to state more clearly where they are going so Congress can, in fact, monitor whether they are getting there efficiently or not.

Mr. CLINGER. Thank you very much.

Mr. **Levitas**. Thank you very much. I think that last point is a very important one. Following up on something that Mr. Oberstar brought out, we have today used management style, euphemistically. But it can play a very important role in bringing about the retrenchment of an agency, and particularly the elimination of personnel.

We have had some information brought to our attention, for example, in connection with another agency of government where there was to be a retrenchment. A new appointee summoned high level officials in the agency, career officials, into a room shortly after his arrival and said a year from today all of you will be gone, you will either leave voluntarily or you will be so miserable by the end of the year you will want to leave.

That has to do with no particular agency, but it is quite correct that that is a pretty effective way to bring about change, it seems to me, if you want to get rid of some people.

The question that I would like to ask you to comment on, if you would, is this matter of change in policy as opposed to change in personnel. Let's take EDA, for example, and assume that the 2 by 4 has not had its effect yet, and that the administration is still committed to the elimination of EDA, even though we have now gone through 3 years of continuing resolutions. And you bring in a new manager who is Dr. Levine.

Mr. **Levine**. Dr. Rubin.

Mr. **Levitas**. We will use Dr. Rubin. And he has got the right management style.

Ms. **Rubin**. She.

Mr. **Levitas**. She has the right management style, and she knows how to front load all these incentives, and you are going to have a real happy bunch of people in an agency that is going to be eliminated, at least as far as the commitment is concerned.

Let's take that situation at EDA on the one hand. And the same could be true with the Interior Department, where, I would suggest, that I don't think the administration's policies will change with Judge Clarke now becoming the Secretary. I think the policies are the same.

Let's contrast that to the Environmental Protection Agency, where there was one policy that the administration was embarked upon. It had all of the problems that we identified with management style, but it was also in a retrenchment.

Bringing in the new management not only changed the management style, but there has, in fact, been a reversal of that policy. Instead of retrenchment, you are going to see expansion of the Agency.

Instead of budget reductions, you are going to see personnel being added back that had originally been eliminated. Now, what is the difference between a situation such as I described at EDA and that which I have described at EPA in terms of management approach? Or is it really the same, two sides of the same coin?

Ms. **Rubin**. My sense is that the EPA was a special case because the mission of EPA has been so popular and there is such overwhelming support for it at home as well as in Congress that you really had an enormous amount of leverage in what was going to happen. I don't think you can pick any old case of malfeasance and do a whole lot with it unless there is that kind of ground swell of support.

But I have to say that who is in charge does make a difference on a policy level as well as a retrenchment level. One of the cases that I did in the study was HUD and Secretary Pierce made an enormous difference in what happened to that agency when the administration slated several major programs to be zeroed out. There was some opposition inside, it went all the way up to the Cabinet level, Pierce sided with some internal evaluation reports and eventually was able to fight OMB and the President, and the decision was reversed and funding has been stabilized.

So it can make an enormous difference. Initially, I am sure Pierce was chosen because he agreed with the President's philosophy, but he was won over to the merits of this particular case and fought it, and it does make a difference.

Mr. LEVITAS. Would you care to comment, Dr. Levine?

Mr. LEVINE. Finding someone who wants to zero out an agency is a tough job. You either have to find someone who needs a job or find someone who is ideologically committed against that agency. In neither case do I think you are going to get the kind of growth and development that we want to see.

I think Mr. Oberstar had it exactly right, the way he phrased it was perfect. It is a paradox of our system, and I suppose that as long as we have the Constitutional structure we have, that particular one is going to play out. I think that the Congress might be able to exercise its will in this bargaining process and make sure that the person that, let's say, becomes Assistant Secretary, while committed perhaps in the intermediate run to closing down the agency, in the short run wants to see its functions done well, and we might be able to find someone who has that kind of special sense of the Constitution and management skills to play that out.

Mr. LEVITAS. That certainly gives me a lot of food for thought, because it may be a paradox or it may be just a very rare individual who posseses certain skills, I am not sure. My experience has been that regardless of whether it is a Carter administration that is trying to abolish the Bureau of Indian Affairs or some other agency, or the Reagan administration that is trying to do away with EDA—I am not saying they are right or wrong in either case, I am just saying that is their policy—it has been my experience that where Congress takes the contrary view in either instance, at the end of the day Congress prevails. I have not seen the agency—and it could go beyond that to a program—that where Congress says "This is what we want to do," and particularly where there is a significant bipartisan consensus that that is the case, that Congress doesn't prevail. I am not aware of any examples to the contrary.

In any event, Dr. Rubin and Dr. Levine, we appreciate your participation today. I think this record will serve us well as we look back and begin to frame our recommendations. As I indicated earlier, there will be additional hearings on this matter. I might add that without objection, the record will be kept open for 2 weeks in order for additional submissions to be made for the record.

At this time, without objection, I am making part of the record a statement submitted on behalf of the All Indian Pueblo Council by the Honorable Gilbert M. Pena, Vice Chairman, All Indian Pueblo Council.

[The statement of Gilbert M. Pena follows:]

STATEMENT OF HON. GILBERT M. PENA, VICE CHAIRMAN, ALL INDIAN PUEBLO COUNCIL

Mr. Chairman and members of the subcommittee: We are pleased to have the opportunity to present this testimony to you today on behalf of the All Indian Pueblo Council which is comprised of the New Mexico Pueblos of Zuni, Acoma, Laguna, Isleta, Sandia, Santa Ana, Zia, Jemez, San Felipe, Santo Domingo, Cochiti, Tesuque, Nambe, Pojoaque, San Ildefonso, Santa Clara, San Juan, Picuris and Taos. Presented to you today will be testimony in support of continuing the Economic Development Administration. Before presenting this testimony, let me also introduce other members of our Pueblo Tribal Delegation.

The Economic Development Administration for the past two and one-half years was proposed to be terminated by the Administration, however, it is evident that Congress, on the other hand, views the efforts of EDA as an effective means of stimulating local, state and Tribal economic development and has prevented EDA's dissolution. The Nineteen Pueblos respectfully ask Congress to continue EDA and appropriate sufficient funds to invest into Indian Reservation Economies.

At present, EDA funds Tribal Development Planning efforts through its Planning Assistance Grant Program. With respect to other EDA assistance such as the Public Works, Technical Assistance, Economic Adjustment, and recent Jobs Bill Programs, the Pueblos have received little or none. The financial assistance which is available is not accessible due to Administration Policies with regard to processing of Congressional Appropriations. Additionally, EDA Planning Assistance reaches the Tribal level only after going through much uncertainty as to whether the assistance will be made available at all! Due to the uncertainty of funding assistance not being available, many Tribal Planning Programs cannot function effectively nor provide continuity in implementing the economic development efforts begun by their programs. Consequently, this is not necessarily true of other Local or State Grantees who benefit from other funding provided for them through subsequent State appropriations.

A concern that has been voiced from the Pueblo's relative to present EDA Programs is the necessity to improve and strenghten the Tribes Local Economies by providing the necessary funding. The end result would more then benefit the Tribes in continuing economic development plans set forth by the Tribal Council's and their Administrations.

Today, many of our Pueblo Tribal Governments have assumed and taken direct responsibility to operate and manage many of the federal programs including providing Tribal members and non-members with police and fire protection, recreational facilities, sanitation and health care services and some agricultural and business development assistance. In pursuing economic development efforts, many of our Pueblos have gone from an agrarian to one of a monetary base society which is necessary in order to encourage viable private economics on our Reservation. Consequently, many of the Pueblos as a result of these initiatives, have begun to realize the enormous burden of bureaucracy costs in order to function and operate such programs effectively and efficiently.

EDA through its federal funding from the past to the present has provided needed construction monies for only major construction work project under the Public Works Program. very few Technical Assistance funds have been granted to the Pueblos and not one single Pueblo or Southwest Tribe was funded under the JOBS BILL. Additionally, many of the Pueblos were not in a position to submit applications under the JOBS BILL because of the time and expense to complete comparable applications to the bigger cities and lastly, on many occasion we are discouraged from submitting applications under the Public Works Program for the reason that the process involved in filling applications becomes a very time consuming process on the part of Indian applicants.

The All Indian Pueblo Council is therefore advocating the following:

A. That an Indian Set-aside be considered for future Jobs bill funds.

B. That Indian Tribes be waived from the 50% match requirement under the present criteria and be funded at a 100% grant capacity under the Jobs bill.

C. That the Regional EDA Offices be given more direct responsibility in the decision process of reviewing and funding potential applicants.

D. That access to Technical Assistance funds on behalf of Indian Applicants be considered in order to provide the necessary expertise and professionalism in developing and implementing EDA supported Economic Development Projects.

In summary, the All Indian Pueblo Council would also consider hosting a Public Hearing at its Conference Room in Albuquerque, New Mexico should Congress initiate and sponsor future Public Hearings on the Programs of the Economic Development Administration.

I (We) again wish to express our appreciation to you Mr. Chairman and to the other members of the Committee in hearing and giving our Pueblos the opportunity to share this testimony. Thank You.

ALL INDIAN PUEBLO COUNCIL—1983 RESOLUTION NO. 25

Whereas, the All Indian Pueblo Council (AIPC) comprised of the Pueblos of Taos, Acoma, Cochiti, Isleta, Jemez, Laguna, San Felipe, Sandia, Santa Ana, Santo Damingo, Zia, Zuni, Nambe, Picuris, Pojoaque, San Ildefonso, San Juan, Santa Clara, and Tesuque was established to advocate for federal programs and projects that are intended to benefit and assist the Pueblos and their people; and

Whereas, in 1983 the Congress of the United States enacted an Economic Development Administration Jobs Bill intended to provide employment to areas of depression and high unemployment; and

Whereas, in the Pueblo communities the unemployment is on the average 50 Percent or higher; and

Whereas, in 1983 none of the Pueblos and/or Pueblo organizations who applied for assistance under this Jobs Bill were funded.

Now, therefore, be it resolved that:

1. The Assistant Secretary for Commerce review the present criteria utilized to fund its program so as to allow more favorable consideration of our Pueblo needs and programs.
2. That the Assistant Secretay for Commerce consult with the Pueblo leadership on any proposed changes that will better Pueblo participation in this program.

CERTIFICATION

I, the undersigned, as Chairman of the All Indian Pueblo Council, do hereby certify that the foregoing Resolution No. 25 was passed at a duly called meeting of the All Indian Pueblo Council, held on the 4th day of November, 1983; at which time a quorum was present, with 15 voting for; 0 voting against; and 0 abstaining.

Delfin J. Lovato, *Chairman.*

Attest:

Jose S. Lente, *Secretary.*

Mr. LEVITAS. In addition, several documents to which reference was made in the staff testimony, will be included in this record. One is a memorandum from the White House, dated August 30, 1983, subject: "Federal Field Structure Reform"; and another is a list of EDA senior staff who have left since June, 1982; and attached to that numbers of employees by sex and grade, GS-12 and above.

[The information referred to follows:]

THE WHITE HOUSE,
Washington, August 30, 1983.

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

Subject: Federal Field Structure Reform.

During the past two and a half years this Administration has made a number of changes in the organization, programs and regulatory activities of the Federal government. Through block grants and decreased imposition of regulations on State and local governments we have lessened the Federal role in programs which have been traditionally administered by other levels of government. In addition, we have decreased the regulatory burden on the private sector.

The successful completion of these changes should dramatically reduce the need for personnel and organizational elements in departmental and agency field structures and, in turn, require less administrative and supervisory functions at headquarters.

Accordingly, you are hereby directed to immediately assess your organization's field structure and to implement changes to streamline field programs, administrative support activities, and, as appropriate, your headquarters staff. This effort will continue to be reviewed by the Working Group on Federal Field Structure Reform under the direction of the Cabinet Council on Management and Administration.

The following objectives and guidelines should govern the planning and reductions in your field structure:

(1) Elimination of duplication and redundancy in the delivery of necessary program services.

(2) Elimination of unnecessary overhead and layers of management via the consolidation of administrative support functions.

(3) Maximum efficient use of existing personnel and property resources.

(4) Delivery of services, whereever possible, solely by State and local governments without Federal government intervention.

(5) Elimination of regional, area and local offices where primary contact is directly between State/local governments and the headquarters of your department or agency.

RONALD REAGAN.

EDA Senior Staff Who Have Left Since June 1982

The following is a list of personnel at the level of GS-14 and above who have separated, retired, or transferred from the Agency since June 30, 1982.

Name and title and grade	Departure date	Reason for leaving
Frank Heideck, Office Service Manager, GM-14	July 24, 1982	Reassignment, Office of Secretary of Commerce.
Charles Warrick, Supervisory Personnel Management Specialist, GM-14.	Aug. 7, 1982	Transfer to National Science Foundation.
Ellen Dickerson, Supervisory Computer Specialist, GM-14	Sept. 18, 1982	Reassignment—to accept job in CIA-Excepted Service.
George Stoner, Loan Specialist (Commercial), GM-14	Sept. 30, 1982	Termination—Expiration of Appointment (now a rehired annuitant).
John Donaldson, Congressional Relation Officer, GS-14	Oct. 16, 1982	Reassignment to Office of Secretary of Commerce.
James Geesey, Economic Development Representative, GS-14	Oct. 2, 1982	Retirement—Voluntary.
Thomas Rose, Attorney Adviser (General), GS-14	Oct. 30, 1982	Transfer to Federal Deposit Insurance Corp.
Michelle Oppenheimer, Personnel Officer, GM-15	Dec. 11, 1982	Transfer to Federal Communications Commission.
George Muller, DAS/Finance, ES-3	Apr. 30, 1983	Reassignment to International Trade Administration.
Donald Ward, Business Loans Program Specialist (Chief Business Loans Div. Denver), GM-14.	Apr. 16, 1983	Retirement—Disability.
Charles Warner, DAS/Economic Development, ES-5	Apr. 3, 1983	Reassignment to International Trade Administration.
Thomas Francis, Director Office of Eligibility and Industry Studies, ES-4.	June 1, 1983	Retirement in lieu of Involuntary Action (Mr. Francis has returned to full-time duty in EDA.).
Wilbur Hattendorf, Regional Director, Atlanta, GM-15	June 30, 1983	Retirement/Voluntary.
Charles Oxley, Special Assistant for Indian Affairs, ES-4	June 1, 1983	Retirement in lieu of Involuntary Action.
Herbert Stiebel, Supervisory Financial Analyst, GM-14	July 30, 1983	Retirement/Voluntary.
Henry Kramer, Management Analysis Officer, GM-15	Aug. 20, 1983	Transfer to Department of Navy.
Russell Milnes, Supervisory Debt Management Specialist (Chief Debt Management Division), GM-15.	Sept. 30, 1983	Retirement/Voluntary.

ECONOMIC DEVELOPMENT ADMINISTRATION

[Numbers of employees by sex in grade GS-12 and above]

	Number—		Total
	Male	Female	
Grade as of Nov. 21, 1983:			
GS-12	76	33	109
GS-13	87	11	98
GS-14	68	7	75
GS-15	18	1	19
SES	9	1	10
Total	258	[1] 53	311
Grade as of Dec. 31, 1978:			
GS-12	111	29	140
GS-13	161	23	184
GS-14	101	4	105
GS-15	40	7	47
SES (GS-16 to 18)	14	0	14
Total	427	[2] 63	490

[1] 17.0 percent.

[2] 12.9 percent.

EDA Senior Staff Who Have Served on Temporary Assignments Since June 1982

The following EDA staff in grade GS-14 and above have been on official details since June 30, 1982.

Name and Grade	Position	Beginning date	Ending date
Leon Douglas, GM-15	From Supervisory Community Planner to Acting Director, OPTARE.	6/22/82	10/19/82
Hugh Knox, GS-12 (retained grade GS-15).	From Environmental Protection Specialist to DAS/ED Immediate Office.	6/15/82	9/30/82
John Woodward, GS-12 (retained grade GS-15).	From Financial Analyst to Seattle Regional Director's Office	7/31/82	9/30/82
Leon Douglas, GM-15	From Supervisory Community Planner to Technical Assistance Program Officer.	10/21/82	1/2/83
Henry Glaser, GS-13 (retained GS-15)	From Financial Analyst to DAS/Operations, Planning Division	11/28/82	3/18/83
Felicity Gillette, GS-12 (retained GS-15).	From Economic Adjustment Program Specialist to Technical Assistance Program Specialist.	11/28/82	3/28/83
Daryl Bladen, GM-15	From Supervisory Public Works Program Specialist (Chief, Public Works Division) to A/S Task Force.	1/3/83	5/3/83
David Bochniowich, GS-14	From Financial Analyst to the Executive Office of the President.	1/23/83	5/3/83
Richard Hage, GS-13 (retained grade GS-14).	From Technical Assistance Program Specialist to A/S Task Force.	1/3/83	5/3/83
Leon Douglas, GM-15	From Supervisory Community Planner to Director, OPTARE	1/3/83	5/3/83
John Feiser, GS-14	From Economist to A/S Task Force	1/3/83	5/3/83
Beverly Milkman, ES-3	From Director, OPTARE to A/S Task Force	1/3/83	5/3/83
Harold Gordon, GS-13 (retained GS-14)	From Community Planner to A/S Office	2/6/83	6/5/83
Paul Bateman, GM-14	From Special Assistant to Assistant Secretary to Deputy Assistant Secretary for Economic Development.	5/13/83	7/26/83
Daryl Bladen, GM-15	From Supervisor Public Works Program Specialist (Chief, Public Works Division to PW Task Force.	5/4/83	9/4/83
Leon Douglas, GM-15	From Supervisory Community Planner to Director, OPTARE	5/4/83	8/30/83
Beverely Milkman, ES-3	From Director, OPTARE to PWP Task Force	5/3/83	9/3/83

Name and Grade	Position	Beginning date	Ending date
Allan Olson, GS-14 (Retained grade GS-15).	From Economist to A/S Office	5/31/83	9/17/83
David Mcliwain, GM-15	From Deputy Director for Operations to Regional Director, Atlanta.	6/29/83	10/26/83
William Willis, GS-14	From Community Planner to Louisiana World Exposition	10/16/83	2/12/83
Daryl Bladen, GM-15	From Supervisory Public Works Program Specialist (Chief, Public Works Division) to OMB.	11/4/83	3/2/84
David Bochniowich, GS-14	From Financial Analyst to OMB	11/4/83	3/2/84

Mr. LEVITAS. Is there further business to come before the subcommittee today?

If not, the subcomittee will stand in recess subject to the call of the chair.

[Whereupon, at 3:10 p.m., the subcommittee recessed subject to the call of the Chair.]

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